



# LIFE HEALTHCARE

## INTEGRATED REPORT 2017

### Life

Well-being and quality of life

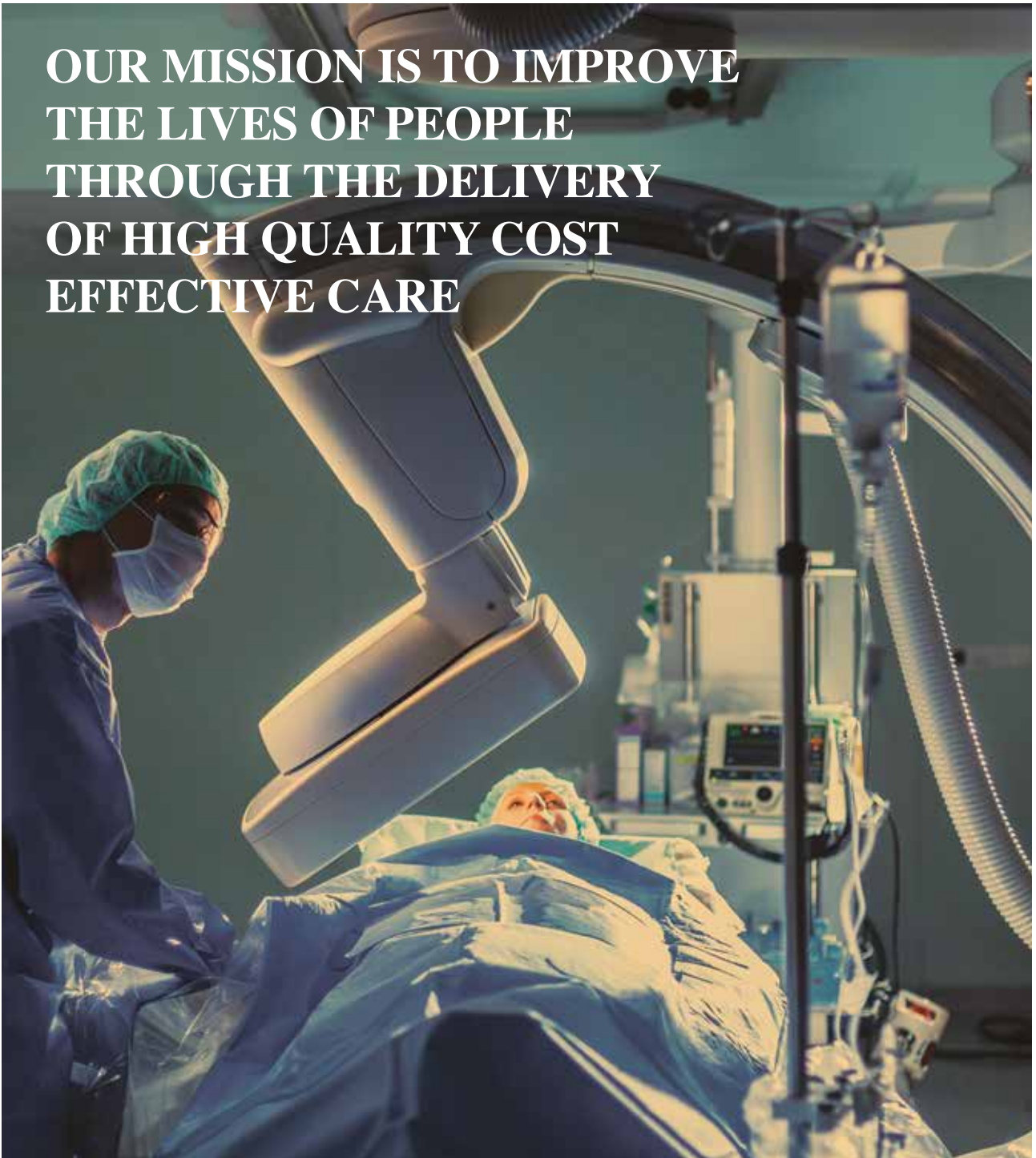
### Health

Clinical excellence in world-class facilities

### Care

Quality, service, respect and empathy for those entrusted to our care

**OUR MISSION IS TO IMPROVE  
THE LIVES OF PEOPLE  
THROUGH THE DELIVERY  
OF HIGH QUALITY COST  
EFFECTIVE CARE**



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## OUR PURPOSE

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Making life better

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## OUR VISION

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To be a market leading, international, diversified healthcare provider

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## OUR MISSION

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We improve the lives of people through the delivery of high quality cost effective care

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# OUR CORE VALUES

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**Passion for people**



**Lifetime partnerships**



**Performance pride**



**Personal care**



**Q<sup>e</sup> – quality to the power of e**

(ethics, excellence, empowerment, empathy, energy)

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# NAVIGATION TOOLS

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The following icon is used to indicate that a non-financial indicator was assured by PricewaterhouseCoopers Inc.



The following icons assist readers in understanding the movements in key performance indicators (KPIs).



Indicates a positive increase or decrease.



Indicates a negative decrease or increase.



Indicates the KPI remained the same.

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We use the following icons to indicate our four strategic focus areas and the application of our strategy.



**Growth**



**Efficiency**



**Quality**



**Sustainability**

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Refers the reader to other sections in this report.



Refers the reader to information available on various digital channels.

# REPORT OVERVIEW

## Scope and boundary

This report covers all of the Group's southern Africa operations including its subsidiaries – Alliance Medical Group Limited (Alliance Medical) in Europe, Scanmed S.A. (Scanmed) in Poland – and its joint venture, Max Healthcare Institute Limited (Max Healthcare) in India. Refer to annexure B of our Group annual financial statements for a simplified Group structure.


The report covers the financial year 1 October 2016 to 30 September 2017. Any informative and material information after 30 September 2017 was included, and is identified in the report where applicable. Aside from the acquisition of Alliance Medical in November 2016, there were no material changes to the structure, ownership or products and services of Life Healthcare.

Our key subsidiaries and joint venture's year-ends are:

<b>Alliance Medical</b>	30 September (financial year-end changed from March to September in the current financial year)
<b>Scanmed</b>	30 September (financial year-end changed from December to September in the current financial year)
<b>Max Healthcare</b>	31 March (performance information for the year ended 30 September is included in this report)


For purposes of this report, the term territories refers to our southern Africa operations, Alliance Medical, Scanmed and Max Healthcare.

## Reporting suite

Life Healthcare's reporting suite is available on our website ([www.lifehealthcare.co.za](http://www.lifehealthcare.co.za)). 

### Report

### Content, frameworks and guidelines

Integrated report	<p>This is Life Healthcare's primary report, aimed at the providers of financial capital. This report was compiled with information that the board of directors (the board) and management believe is relevant and material (refer  page 32) to provide a comprehensive view of the Group's performance. It is recommended that this report is read in conjunction with the Group annual financial statements.</p> <p>The information in this report was guided by local and international guidelines. These include:</p> <ul style="list-style-type: none"><li>• the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework (&lt;IR&gt; Framework);</li><li>• the reporting principles contained in the King IV Report on Corporate Governance for South Africa 2016 (King IV);</li><li>• JSE Limited Listings Requirements (JSE Listings Requirements);</li><li>• the South African Companies Act, 71 of 2008, as amended (Companies Act); and</li><li>• International Financial Reporting Standards (IFRS).</li></ul>
Group annual financial statements	Life Healthcare's audited consolidated and Company financial statements in accordance with IFRS, the Companies Act and the JSE Listing Requirements.
Board and executive management members' biographies	This supplementary report details brief curricula vitae of the members of Life Healthcare's board and executive management. It includes the leadership structures and team members of each of the four territories we operate in.
Notice of annual general meeting and abridged shareholder report	The required statutory information and notice of annual general meeting which are distributed to shareholders to convene the annual general meeting.

## Feedback

Life Healthcare strives to achieve high standards in all disclosures within this report and to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. We welcome feedback and invite you to contact the Group Company Secretary, Fazila Patel, should you have any questions. Her information is as follows:

+27 11 219 9000 or [fazila.patel@lifehealthcare.co.za](mailto:fazila.patel@lifehealthcare.co.za).

**L**ife Healthcare Group Holdings Limited (the Group, Company or Life Healthcare), an international healthcare services provider, is listed on the Johannesburg Stock Exchange (JSE).

## Assurance and responsibility

The Group follows a combined assurance process:

**1**

The **first line of defence** comprises Life Healthcare's operational employees. They are charged with understanding their roles and responsibilities and carrying them out correctly and completely.

**2**


The **second line of defence** is created by oversight functions, including risk and compliance management. These functions monitor adherence to policies, define work practices and oversee the first line of defence with regard to risk and compliance.

**3**

The **third line of defence** comprises the internal and external assurance providers and the board. Internal and external auditors regularly review the first and second lines of defence to ensure that they are carrying out their tasks to the required level. The board mandates the audit committee to review the information provided by various board committees regarding tasks and business information. The board plays an oversight role and is responsible for approving the information reviewed by the audit committee, among others.

This assurance process is applied in the compilation of the integrated report, and the board, its committees and management were involved in

finalising the report's disclosures. Because this report builds on the detailed monthly performance reports compiled and reviewed by management, management reviews are integral to its overall assurance.

The summarised financial information included in this report was extracted from the audited Group annual financial statements. The Group annual financial statements were independently assured by the external auditors, PricewaterhouseCoopers Inc. A number of non-financial indicators were assured by PricewaterhouseCoopers Inc. For the selection of indicators and the Independent Assurance report, refer to  page 151. This report in its entirety was not independently assured.

### Board responsibility

**The board, assisted by its respective committees, is ultimately responsible for overseeing the integrity and completeness of this report. After applying its collective mind to the preparation of this report, based on the completeness of the information collected and the assurance thereof, the board concluded that the report materially aligns with the IIRC's <IR> Framework, providing a true and material account of the Group's performance and strategic direction.**

**On 20 November 2017, the board approved the 2017 integrated report.**

**Mustaq Brey**  
Chairman

**Peter Golesworthy**  
Chairman: audit committee

**Pieter van der Westhuizen**  
Acting Group Chief Executive Officer  
and Group Chief Financial Officer

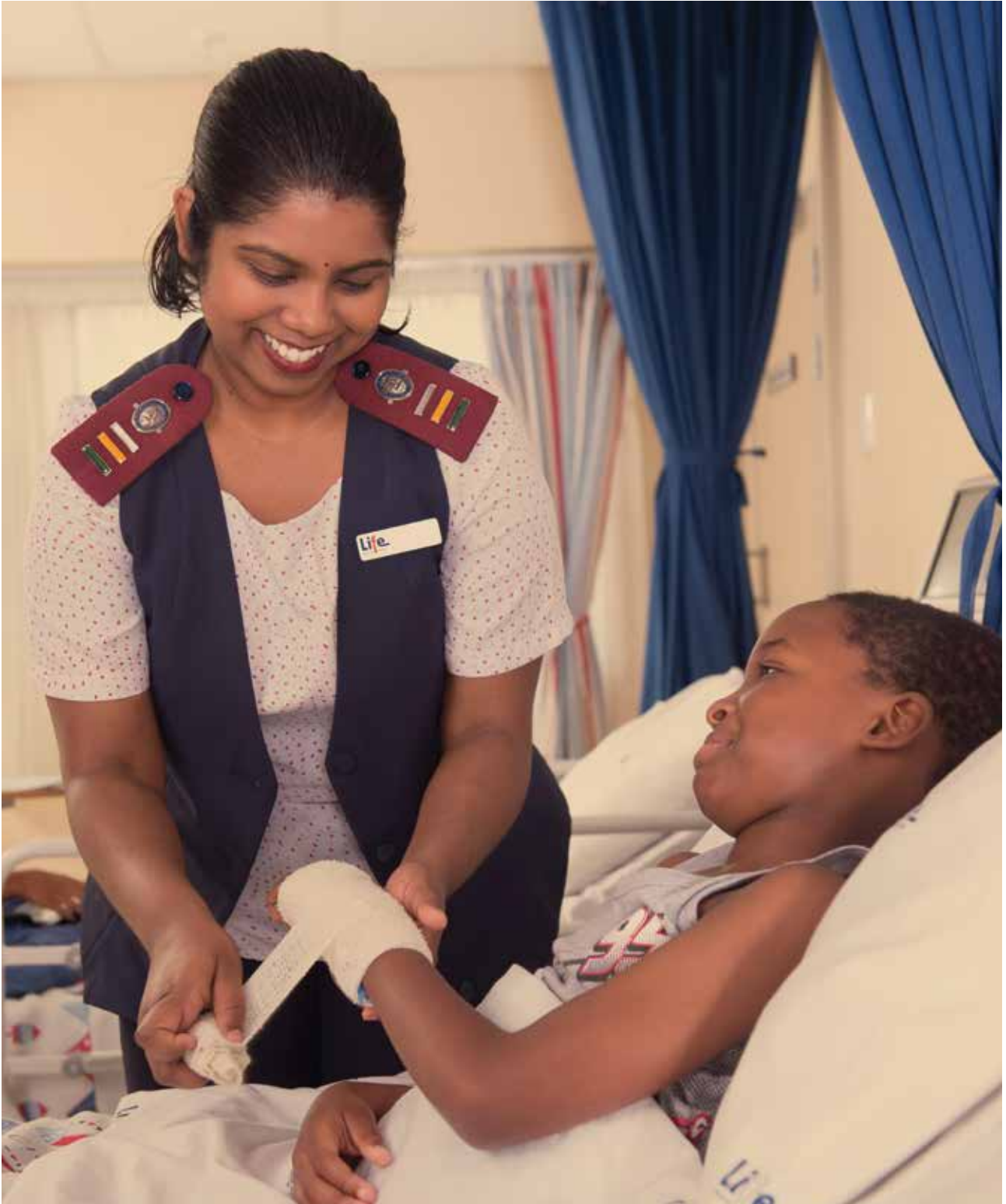
### Forward-looking statements

This integrated report contains forward-looking statements that, unless otherwise indicated, reflect the Group's expectations at 20 November 2017. Actual results may differ materially from the Group's expectations if known or unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. Therefore, the Group cannot guarantee that any forward-looking statement will materialise. As such, readers are cautioned not to place undue reliance on these forward-looking statements, and the Group disclaims any intention and assumes no obligation to update or revise any forward-looking statement.



# GROUP OVERVIEW

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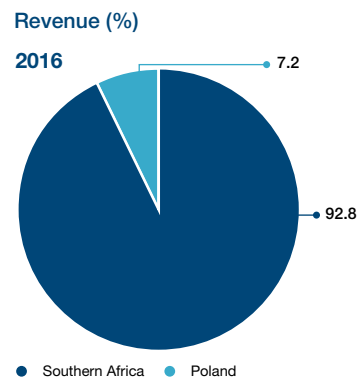
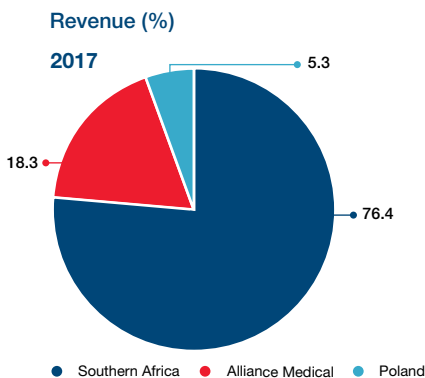
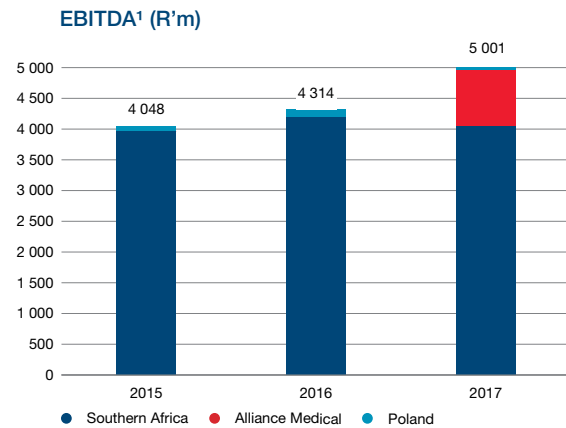
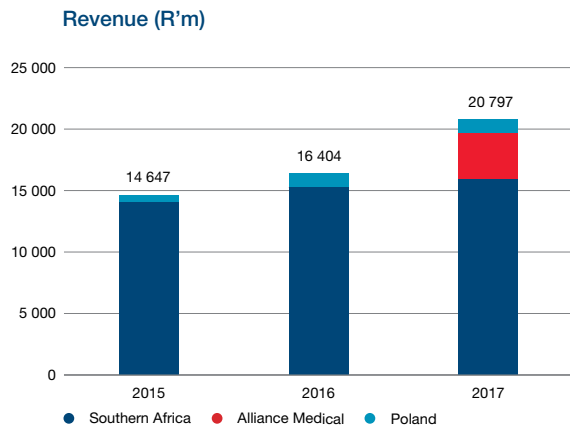


# GROUP STRUCTURE AND SERVICES PROVIDED

**L**ife Healthcare is a major South African private healthcare provider with a diversified international footprint.

Our primary operations are in South Africa with additional activities in Botswana. These two countries are collectively referred to as our southern Africa business and represent 76.4% of the Group's revenue (2016: 92.8%).

Southern Africa business activities are organised into two divisions – the hospital division and healthcare services division. International operations are located in western Europe (Alliance Medical) and Poland (Scanmed) as well as India (Max Healthcare, a joint venture).



<sup>1</sup> Earnings before interest, taxation, depreciation and amortisation.

## GROUP STRUCTURE AND SERVICES PROVIDED CONTINUED

### Southern Africa<sup>1</sup>

#### Hospital division

The hospital division provides healthcare services primarily to the private medically insured market. It is composed of the acute hospital business and complementary services.

Business	Facilities		Beds/stations	
	2017	2016	2017	2016
<b>Acute hospitals</b>	<b>50</b>	50	<b>8 152 beds</b>	8 067 beds
<b>Complementary services</b>				
Acute rehabilitation	<b>7</b>	7	<b>319 beds</b>	319 beds
Mental health	<b>8</b>	7	<b>512 beds</b>	437 beds
Renal dialysis	<b>24</b>	22	<b>303 stations</b>	281 stations
Oncology	<b>4</b>	2	<b>n/a</b>	n/a

#### Acute hospitals

Life Healthcare's various acute hospitals are largely located in metropolitan areas in seven of South Africa's nine provinces, and Botswana. These general hospital facilities include intensive care units (ICUs), high care units, operating theatres, emergency units, maternity units, cardiac units and paediatric units.

Facility types include:

- high-technology, multi-disciplinary hospitals offering highly specialised medical disciplines;
- community hospitals;
- same-day surgical centres; and
- dedicated niche facilities.

Approximately 2 934 (2016: 2 850) doctors and specialists, as well as various other healthcare professionals, support the delivery of effective and empathetic care through these state-of-the-art facilities.

#### Complementary services

Complementary services are specialised healthcare facilities that provide inpatient and outpatient services in the areas of acute rehabilitation, mental healthcare, renal dialysis and oncology. Our specialised care models promote continuity of care and uniquely position Life Healthcare to provide comprehensive therapeutic interventions for chronically ill patients.

#### Acute rehabilitation

Life Rehabilitation provides acute physical and cognitive rehabilitation for patients disabled by brain or spinal trauma, stroke or other disabling injuries or conditions. Life Rehabilitation uses the Functional Assessment Measure (FAM) for cognitive, behavioural, communication and community functioning, which are of importance concerning patients with brain injuries. Each patient's clinical outcomes and overall progress are measured objectively to benchmark the performance of rehabilitation units and demonstrate clear patient outcomes to patients, their families and medical healthcare funders.

Life Rehabilitation is the only ISO 9001:2008 certified rehabilitation network and the only official licence holder for the Functional Independence Measure™ (FIM™) in South Africa.

#### Mental health

Life Mental Health provides multi-disciplinary mental healthcare services to adult and adolescent patients. It caters to liaison psychiatry, general psychiatric conditions and substance dependence. Our facilities are designed for transitional care, and they support voluntary, assisted and involuntary patients. We further operate theatres with full anaesthetic capability for electroconvulsive therapy. In addition to our general psychiatric services, we have a suite of specialised care services for geriatric patients and persons with adjustment disorders brought on by, i.e. post-partum, work stress and divorce. Life Healthcare has dedicated mental health facilities in the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng.

#### Renal dialysis

Life Renal Dialysis has specialised units for treating patients with renal dysfunction that require acute and chronic renal dialysis. The renal offering includes peritoneal dialysis, inpatient nocturnal dialysis and mobile renal dialysis services.

#### Oncology

Life Healthcare offers technologically advanced diagnostic and interventional oncology services supporting comprehensive cancer management. Our holistic care model focuses on extensive patient counselling and support including chemotherapy, surgery and radiotherapy (comprising brachytherapy and stereotactic radiotherapy). Our investment in linear accelerators and treatment planning software provides targeted, accurate and effective treatment for a variety of cancers.

## QUICK FACTS

In South Africa:

- We have **market share** of approximately **21%** of private hospital beds.
- Life Healthcare **owns 50 of the 63 hospital properties** that we operate from.

<sup>1</sup> An outline of Life Healthcare's southern Africa facilities can be viewed at [www.lifehealthcare.co.za/hospitals/](http://www.lifehealthcare.co.za/hospitals/) 



## Healthcare services division

Healthcare services relate to specialised care and occupational health services by Life Esidimeni and Life Employee Health Solutions respectively.

Business	Facilities		Beds	
	2017	2016	2017	2016
Life Esidimeni (public sector contracts)	11	9	3 080	2 424
Business	Clinics		Employees cared for	
	2017	2016	2017	2016
Life Employee Health Solutions	366	371	471 699	419 659
Life Occupational Health	288	297	222 895	159 685
Careways	78	74	248 804	259 974

### Life Esidimeni

Life Esidimeni operates a network of care centres through public-private partnership (PPP) contracts with the South African provincial health and social development departments. Life Esidimeni provides long-term chronic mental healthcare, frail care rehabilitation, step-down care, correctional services, primary healthcare and substance abuse recovery programmes to patients from the public sector.

### Life Employee Health Solutions

Life Employee Health Solutions is delivered by Life Occupational Health and Careways. Life Occupational Health is a provider of contracted on-site occupational and primary healthcare services to large employer groups in the commercial, industrial, mining and parastatal sectors. Use of Life Occupational Health's clinics is largely driven by the requirements of the Occupational Health and Safety Act, 85 of 1993 (OHSA), and the needs of corporate customers. Life Occupational Health has ISO 9001:2008 and BS OHSAS 18001:2007 certifications and operates on-site, off-site and mobile clinics throughout the country.

Careways encourages and supports healthy and balanced living in employees, improving their well-being and promoting maximum productivity for employers. Careways' employee wellness services are provided to 226 companies and institutions across the public and private sectors. The Group acquired the EOH Workplace Health and Wellness business with effect from 1 October 2017.

## International operations

### Alliance Medical Group Limited

Alliance Medical is a leading diagnostic imaging services provider in western Europe. The business is uniquely positioned through a vertically integrated model that provides services across the imaging value chain. The business offers a number of diagnostic imaging services with a focus on magnetic resonance imaging (MRI), computerised tomography (CT) and molecular imaging via

positron emission tomography-computerised tomography (PET-CT) services. These services are predominantly supplied to public funders, such as the National Health Service (NHS) in the UK and Azienda Sanitaria Locale (ASL) in Italy, and various public and private funders across Europe. The business also performs radiopharmacy activities. This entails the manufacture of radiopharmaceuticals for PET-CT scanning operations and clinical trials. Refer to [page 82](#) for detail on each service offering.

Alliance Medical's primary operations are in the UK, with significant operations in Italy and Ireland. Additional activities take place in Spain and in the business's northern Europe geographic segment (principally in the Netherlands, Germany, Finland, Bulgaria, Austria, France, Norway and Poland).

## QUICK FACTS

The Group's total investment in international businesses:

### Alliance Medical (western Europe)

R13.9 billion (acquisition effective 21 November 2016). We have a 93.78% shareholding in Alliance Medical Group Limited.

### Scanned (Poland)

R2.2 billion (2016: R2.2 billion). We have 100% shareholding in Scanned S.A.

### Max Healthcare (India)

R2.9 billion (2016: R2.5 billion). We have a 49.7% (2016: 45.95%) shareholding in Max Healthcare Institute Limited.

## GROUP STRUCTURE AND SERVICES PROVIDED CONTINUED

The business primarily provides MRI, CT and PET-CT scans in the UK, principally through PPPs with the NHS. This is facilitated by 73 diagnostic imaging scanners at 49 diagnostic imaging sites, and 41 mobile scanners.

The business's embedded partnership with the NHS was secured under a 10-year fixed price contract until 2025. The contract secures the provision of all PET-CT scans in England across 31 cancer centres that operate under a national governance framework. Clinical leadership for this

The business's geographic operations are set out below.

framework is provided by our partner and the largest cancer centre in Europe – the Christie NHS Foundation Trust, also known as “the Christie”.

In Italy, Alliance Medical has the largest network of community-based diagnostic imaging clinics. These provide MRI, CT and PET-CT services in addition to other, more basic diagnostic services. These clinics provide health solutions to local communities.

Geographic segment	Total sites	Principal service offerings
UK	49	<ul style="list-style-type: none"> <li>• MRI</li> <li>• CT</li> <li>• PET-CT</li> <li>• Radiopharmacy</li> </ul>
Italy	39	<ul style="list-style-type: none"> <li>• MRI</li> <li>• CT</li> <li>• PET-CT</li> <li>• Radiopharmacy</li> </ul>
Ireland	20	<ul style="list-style-type: none"> <li>• MRI</li> <li>• CT</li> <li>• PET-CT</li> </ul>
Spain	10	<ul style="list-style-type: none"> <li>• MRI</li> <li>• CT</li> <li>• PET-CT</li> <li>• X-ray</li> </ul>
Northern Europe	Mobile	<ul style="list-style-type: none"> <li>• Mobile MRI</li> <li>• CT</li> <li>• PET-CT</li> <li>• Angio-theatre</li> </ul>

### Scanned S.A.

Business	2017	2016
Facilities	40	40
Cardiac units	12	12
Beds	624	624

Scanned is a private healthcare and medical services provider in Poland, operating in 40 locations across 23 cities. The cardiology business contributes 40% (2016: 43%) of revenue, and government-related contracts make up 75% of total revenue. Scanned provides coordinated healthcare for private and institutional patients using public and private sources of financing. This includes inpatient hospitalisation, primary healthcare, medical consultations, diagnostics, analytical tests, medical transportation and home visits.

### Max Healthcare Institute Limited

Business	2017	2016
Facilities	12	12
Beds	2 375	2 384

Max Healthcare is a leading hospital chain in India. The business operates state-of-the-art hospitals in Delhi-NCR, Punjab and Uttarakhand.

Max Healthcare provides a broad range of specialties including advanced cardiac care, orthopaedics, oncology, renal sciences, neurosciences, metabolic and bariatric surgery, obstetrics and gynaecology, paediatrics, nephrology, general surgery, diagnostic services and emergency services.

Life Healthcare does not manage the day-to-day operational and management activities of Max Healthcare, but rather plays an active shareholder role in the operation of the business.

# OUR VALUE CREATION

**L**ife Healthcare believes that world-class healthcare can be provided by working closely with medical professionals to deliver clinical excellence and unparalleled quality, while caring for the personal needs of patients and their families.

Life Healthcare creates sustainable value for our stakeholders through the following activities:

## Patients

- Providing quality, patient-centred healthcare and related medical services to a broad spectrum of patients
- Operating with a level of process quality and outcomes efficiency that differentiates Life Healthcare from our competitors

## Shareholders, investors and financiers

- Delivering operational growth and international diversification
- Appropriately investing in cost effective, environmentally friendly and innovative technologies

## Doctors and consultants

- Forming and developing long-term partnerships with doctors and other healthcare professionals

## Government

- Providing a pipeline of skilled nurses for South Africa
- Responsibly investing in community health
- Striving to be a responsible corporate citizen

## Medical healthcare funders

- Developing and sustaining collaborative relationships

## Government as a customer

- Partnering with government through PPPs

## Industry and regulatory bodies

- Supporting industry-wide initiatives and providing input into proposed legislation and regulations

## Employees

- Focusing on employee wellness and development

## QUICK FACT

Our associated doctors and specialists in southern Africa increased to 2 934 (2016: 2 850)

## Suppliers

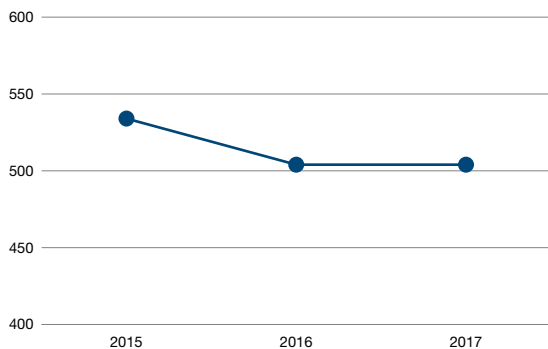
- Fair and transparent procurement activities
- Investing in enterprise development initiatives

## OUR VALUE CREATION CONTINUED

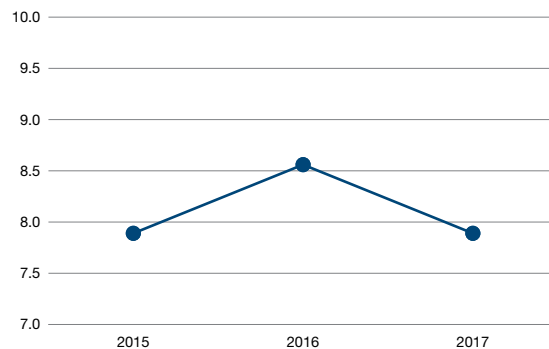
### Statement of financial value add

	2017 R'm	2016 R'm	2015 R'm
Revenue	20 797	16 404	14 647
Less: Purchased cost of goods and services	(10 309)	(6 971)	(6 015)
<b>Financial value added</b>	<b>10 488</b>	9 433	8 632
Other income	110	158	163
<b>Financial wealth created</b>	<b>10 598</b>	9 591	8 795
Employees	5 443	5 094	4 599
Providers of equity	1 478	1 662	1 522
Providers of funding <sup>1</sup>	1 216	509	404
Government	976	972	997
Maintenance and expansion of capital <sup>2</sup>	1 410	675	572
Reinvestment in the Group <sup>3</sup>	75	679	701
<b>Financial wealth distributed</b>	<b>10 598</b>	9 591	8 795
Average number of employees	20 499	19 026	16 472
Financial wealth created per employee (R'000)	504	504	534
Weighted average number of shares (million)	1 310	1 121	1 115
Financial wealth created per share (R)	7.89	8.56	7.89

Financial wealth created per employee (R'000)



Financial wealth created per share (R)



The Group has undertaken a strategy of international growth and diversification to support the longer-term growth of the private healthcare market, this has resulted in a number of non-recurring costs, including transactions costs and increased acquisition funding costs.

Excluding these non-recurring items the financial wealth created per employee would be R556 905 (2016: R524 177 and 2015: R534 847), and the financial wealth created per share would be R8.72 (2016: R8.90 and 2015: R7.90).

<sup>1</sup> Includes R778 million of funding costs for acquisitions in 2017, of which R427 million is non-recurring due to the settlement of a portion of the bridge funding via the rights offer.

<sup>2</sup> In 2017 the amortisation charge increased by R292 million, resulting from the fair value uplift of intangible assets from the Alliance Medical acquisition.

<sup>3</sup> Includes the impairment of the investment in Poland of R167 million and R370 million in 2017 and 2016 respectively.

## External environment

The information that follows provides an overview of the various environments we operate in, and the likely impacts these have on Life Healthcare. These elements are discussed throughout this report, including the Chairman's (page 16) and Group Chief Executive Officer's (page 26) reviews, and they carry a close correlation with our material matters (page 32).

### Southern Africa

#### Operating context in general

- **Growth rate:** In South Africa, political and economic uncertainty has led to a more difficult operating

environment. Demand for healthcare services remain high, however, affordability in the market is adversely affected by the economic environment. Gross domestic product (GDP) reduced to 0.7%<sup>1</sup> in 2017 (2016: 0.3%)<sup>1</sup>.

- **Infrastructure challenges:** Despite adequate support and back-up structures, prolonged electricity and water shortages have the potential to cause disruptions to our service.
- **Exchange rate:** Medical equipment and medical consumables purchased are impacted by exchange rate movements.

Currency	ZAR rate to foreign currency as at 30 September 2017	ZAR rate to foreign currency at interim period, 31 March 2017	ZAR rate to foreign currency as at 30 September 2016
USD	0.074	0.075	0.073

<sup>1</sup> International Monetary Fund (IMF) data.

#### Healthcare market

- **Competition Commission's Healthcare Market Inquiry (HMI):** The HMI was launched on 6 January 2014 and currently intends to publish a provisional report on findings and recommendations by April 2018. The Group completed a profitability analysis and provided an assessment of the nature of our relationships with supporting doctors and specialists. Various third-party providers were appointed by the HMI to engage with submitted data. Life Healthcare continues to engage extensively with the Competition Commission when data is made available for review and analysis.
- **National Health Insurance (NHI):** The South African government intends to introduce a NHI system over the next 13 years. The NHI's objective is to provide access to quality, affordable healthcare services for all South Africans, based on their health needs, irrespective of their socio-economic status. Regulatory implications may materialise as part of this process. Investigations are ongoing, and a White Paper was gazetted on 28 June 2017 through consultation with various hospital and government entities. Life Healthcare actively engages with government-established implementation committees, through the Hospital Association of South Africa (HASA).
- **Bed licences:** Provincial Department of Health offices issue bed licences for present and future facilities – the turnaround speed and efficiency of applications impact the Group's rate of growth. Annual inspections of facilities and legislated changes in compliance requirements may result in alterations to Group facilities with associated costs.
- **Employing doctors:** According to the regulatory limitation in terms of the Ethical Rules of the Health Professions Council of South Africa (HPCSA), doctors

cannot be employed by the Group in any clinical practice roles. The doctors work on an associative basis in Life Healthcare's structures. In July 2017, an exception was granted to employ medical officers for our ICU, maternity and accident and emergency units subject to strict conditions.

- **Wage increases:** Employee cost is a key cost of care driver and constitutes the highest operating expense across the Group. The public healthcare salaries paid continue to exceed inflation. The public sector is the largest employer of nurses and also employs large numbers of pharmacists. The salary increase practices within the public sector directly impact the cost of acquiring clinical skills and our ability to attract and retain, among others, scarce nursing skills. Ultimately, the high wage increases affect the affordability of healthcare, and the shortage of skilled employees affects the quality of care.
- **Competition:** Life Healthcare is one of the largest private hospital groups in South Africa competing for a limited and shrinking number of medically insured lives, patients, doctors, nurses and pharmacists, as well as preferred network contracts with medical healthcare funders. The Group's competitors include Netcare and Mediclinic International, independent hospitals, medical service providers, healthcare service providers and day clinics.
- **Other factors:** The Group's growth rate and profitability are impacted by the:
  - changing disease burden;
  - ageing profile of medically insured individuals;
  - medical healthcare funder consolidation; and
  - preferred network agreements with medical healthcare funders.



## OUR VALUE CREATION CONTINUED

### Alliance Medical

#### Operating context in general

- **Growth rate:** GDP growth for western Europe is expected to be 2%<sup>1</sup> (2016: 1.8%).
- **Brexit:** Uncertainty related to the long-term economic and political impacts. Life Healthcare expects the only impact to be on the free movement of clinical expertise.
- **Exchange rate:** Exchange rate movements impact on the translation of financial results into the Group annual financial statements.

Currency	GBP rate to foreign currency as at 30 September 2017	GBP rate to foreign currency at interim period, 31 March 2017	GBP rate to foreign currency as at 21 November 2016 <sup>2</sup>
EURO	1.141	1.179	1.176
ZAR	18.130	16.808	17.746

#### Healthcare market

- **Continued demand:** We expect solid underlying growth for MRI, CT and PET-CT across Europe, despite continued pricing pressure. This expectation is informed by population growth, accelerated growth of the ageing population and service demand projections. The European public healthcare system is struggling to accommodate this demand increase. Limited capital expenditure budgets in the public sector and limited

capacity to expand existing facilities have contributed to opportunities for private sector medical imaging companies such as Alliance Medical, to work in partnership with public health providers.

- **Competition:** Alliance Medical's key competitors are typically localised to the towns and regions they operate within. Affidea is a pan-European service provider that operates in some of Alliance Medical's markets.



<sup>1</sup> International Monetary Fund (IMF) expectations.

<sup>2</sup> Alliance Medical was acquired on 21 November 2016.

## Poland

### Operating context in general

- **Growth rate:** Poland's GDP grew by 3.9%<sup>1</sup> year-on-year (2016: 2.8%). Scanned expects GDP growth of 3.2% – 3.5% for 2018 and 2019 based on information from Fitch ratings agency.
- **Exchange rate:** The Polish zloty (PLN) stayed stable against key foreign currencies (USD, EURO and GBP) in 2017. Due to a better-than-expected Polish macroeconomic performance, the PLN has strengthened against these currencies since September 2016. The exchange rates had an impact on the Group results from a financial statement translational perspective when converted to Group reporting currency and from a procurement perspective, specifically for the procurement of medical equipment and consumables from outside the country.

Currency	PLN rate to foreign currency as at 30 September 2017	PLN rate to foreign currency at interim period, 31 March 2017	PLN rate to foreign currency as at 30 September 2016
USD	0.273	0.252	0.262
EURO	0.232	0.237	0.233
GBP	0.205	0.201	0.202
ZAR	3.712	3.388	3.586

### Healthcare market

- **Contract fees and pricing:** Scanned relies heavily on contracts from the Narodowy Fundusz Zdrowia (NFZ). Regulatory changes have led to tariff reductions, the most material of which were in cardiology. The business is 40% cardiology-based, and tariff changes have driven a circa 28% decline in cardiology revenue year-on-year.
- **New laws:** In March 2017, the Polish parliament adopted new laws and a new system for public hospital funding (known as the “countywide hospital network”). In terms of the legislation, 91% of funds for inpatient care will be distributed through budgets, and the remaining portion through NFZ tendering processes. Hospitals within the network will be remunerated based on the budget system, adjusted according to actual performance. Two multi-specialist hospitals and five cathlabs were granted four-year contracts. A few units are awaiting the outcomes of tender processes. Approximately 85% of 2018 budgeted NFZ revenues were secured by 30 September 2017.

## India

### Operating context in general

- **Growth rate:** India's GDP shrank to 6.7%<sup>1</sup> (2016: 7.1%). India is the world's seventh largest economy and second most populous country, thus the Group expects GDP to grow in line with further industrialisation.
- **Amendment of Maternity Benefit Act:** The Maternity Benefit (Amendment) Act, 2017 was enacted on 27 March 2017 increasing maternity leave from 12 weeks to 26 weeks.
- **Exchange rate:** The Indian rupee (Rs) was a high performing currency in Asia this year. Its performance was a result of favourable and improving differentials between India and US treasury yields, and lower currency volatility. The exchange rates had an impact on the Group results from a financial statement translational perspective when converted to Group reporting currency and from a procurement perspective, specifically for the procurement of medical equipment and consumables from outside the country.

Currency	Rs rate to foreign currency as at 30 September 2017	Rs rate to foreign currency at interim period – 31 March 2017	Rs rate to foreign currency as at 30 September 2016
USD	0.015	0.015	0.015
ZAR	0.206	0.207	0.206

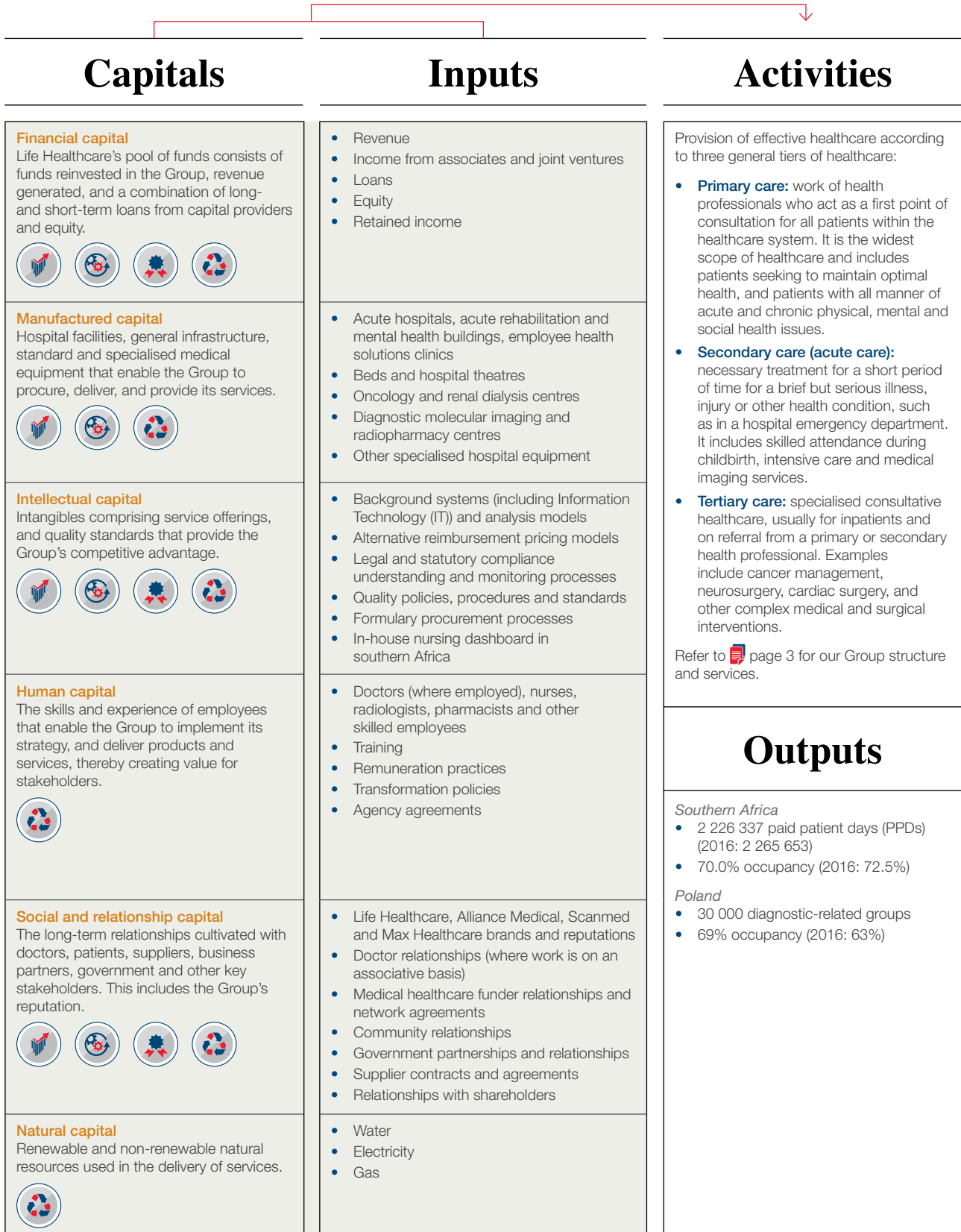
### Healthcare market

- **Stent and knee impact:** The National Pharmaceutical Pricing Authority (NPPA) issued an order effective 13 February 2017, which fixed the ceiling prices for coronary stents. All Max Healthcare network hospitals comply with the NPPA order which negatively impacted revenue.

<sup>1</sup> International Monetary Fund (IMF) expectations.

## OUR VALUE CREATION CONTINUED

# BUSINESS MODEL



**L**ife Healthcare’s business model encapsulates our value creation process in the context of our operating environment. Our strategy considers the six capitals in directing our inputs and activities towards sustainable and positive outputs and outcomes.

## Outcomes

<ul style="list-style-type: none"> <li>• R1 119 million (2016: R1 970 million) profit</li> <li>• 15.9% growth in cash generated in operations</li> <li>• 80 cents per share (cps) (2016: 165 cps) dividends paid</li> <li>• R9 billion raised in rights offer</li> <li>• Appropriate management of debt and equity with a net debt: normalised EBITDA ratio of 2.55 times</li> <li>• Investment in Alliance Medical and rationalisation of the Scanmed business</li> <li>• Increased investment in the Max Healthcare business</li> </ul>
<ul style="list-style-type: none"> <li>• Number of hospital beds, oncology units, renal stations and diagnostic molecular imaging and radiopharmacy centres added</li> <li>• Improved hospital efficiency as a result of capital investment and environmentally friendly facility upgrades</li> <li>• Perceived technological superiority by patients and markets, supporting brand strength and differentiation internationally</li> </ul>
<ul style="list-style-type: none"> <li>• Growth in goodwill and intangible assets</li> <li>• New business lines and service offerings developed, for example, the combined occupational health and employee wellness offering</li> <li>• Ability to drive efficiencies throughout the business</li> <li>• A newly established clinical governance, quality and safety board sub-committee which ensures quality standards are maintained and improved</li> <li>• IT utilised to drive standardisation, reduction in administrative costs and economies of scale</li> <li>• Knowledge sharing of best practice among territories</li> </ul>
<ul style="list-style-type: none"> <li>• Qualified, experienced and motivated employees</li> <li>• Bi-annual employee engagement survey in southern Africa</li> <li>• Increase of 1.4% in permanent employees and a decrease of 1.1% in sessional employees in southern Africa</li> <li>• The top 100 senior employees in southern Africa have an average of 12.1 years’ experience</li> <li>• Employee share schemes in place for all staff in southern Africa</li> <li>• Integration of Alliance Medical’s experienced management team with an average of over 15 years’ experience in the healthcare industry</li> <li>• R133 million (2016: R115 million) spent on training</li> <li>• 1 358 (2016: 1 060) nurses enrolled for training and 624 (2016: 537) nurses graduated from the Life College of Learning</li> <li>• 327 (2016: 201) learnerships provided in southern Africa</li> <li>• Scanmed employees and contractors reduced to 3 345 (2016: 3 651) people</li> </ul>
<ul style="list-style-type: none"> <li>• Partnerships developed and/or enhanced</li> <li>• Reputation enhanced through collaboration with partners such as “the Christie”</li> <li>• Doctor shareholding</li> <li>• Patient experience and recommendation</li> <li>• Improved compliant broad-based black economic empowerment (B-BBEE) rating</li> </ul>
<ul style="list-style-type: none"> <li>• Creating awareness to reduce water utilisation, as well as the installation of water metering for improved monitoring of water usage</li> <li>• Lowered grid electricity reliance through solar initiatives, heat pumps and LED lighting projects</li> <li>• Increased initiatives to recycle general waste</li> <li>• Improved usage of more environmentally friendly gases</li> </ul>

# LIFE HEALTHCARE

## AS AN INVESTMENT

Life Healthcare offers world-class facilities, expertise and a unique focus on *Health* and *Care*, which gives more meaning to *Life*. Our name, Life Healthcare, embodies our beliefs.

We are dedicated to:

- **Life:** well-being and quality of life
- **Health:** clinical excellence in world-class facilities
- **Care:** quality, service, respect and empathy for those entrusted to our care

Strong **South African market position** in a defensive industry with growth in complementary services, occupational health and wellness.

Effective diversification into **international territories** with fast growing healthcare markets or specialties.

**Shareholder wealth creation** and operational excellence.

A growing, highly skilled base of **associated doctors and specialists.**

**Clinical excellence** in providing patient-centred care.

**Highly skilled employees** who actively apply their expertise in Life Healthcare's value creation process.

**Operational efficiencies and unique product offerings** to drive down the cost of care while improving clinical outcomes and quality.

A clear organisational culture supported by **robust governance**, aligned to the Group's vision of being a market-leading, international, diversified healthcare provider.



# STRATEGY AND LEADERSHIP REVIEWS

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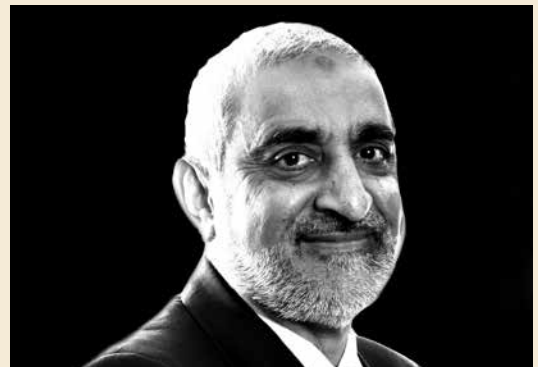


# CHAIRMAN'S REVIEW



**W**e remain focused on maximising our growth opportunities while ensuring that quality, patient-centred care remains our core deliverable in a competitive industry.

**Mustaq Brey**  
*Chairman*



## Operating environment

The South African economy continued to struggle in 2017, entering its first recession since 2008 – 2009. Key negative outcomes of the poorly performing economy are lack of employment growth, a decreasing number of active workforce participants and increasing unemployment. This in turn adversely impacts the number of people who can afford private health insurance. Over the last three years the private health insurance market has shown no growth, stabilising at around 8.9 million lives. Access to affordable healthcare services continues to be a challenge for most South Africans and is considered a financial burden at lower income levels. Over the same period, the hospital industry has continued to add hospitals and beds to the market, putting pressure on occupancies.

Exacerbating the environment are the increased levels of consolidation shown by the medical healthcare funder market, making pricing negotiations more challenging. This is reflected in the number of privately insured lives covered by Discovery Health, MMI Holdings and Medscheme, which now cover more than 75% of the patients we interact with annually. A number of the medical healthcare funders increased their managed care activities and focused on reducing healthcare utilisation after a steep increase in 2016. This has impacted the private hospital industry as a whole with most providers having lower growth or even a decline in volumes.

Despite the challenges in our operating environment, we are proud to note that our complementary services in southern Africa continue to develop well. We opened an oncology facility at Life Eugene Marais Hospital and increased our stake in the Free State Oncology Trust to a controlling stake. A new mental health facility was opened at Life Carstenview in Gauteng, providing an additional 60 beds.

Through the Alliance Medial operations, we have experienced good demand for diagnostic and molecular imaging services in the UK and Europe. In the UK the business has experienced some pricing pressure within the mobile section of its business.

Operations in Poland became more aligned to the Group standards during the regulatory uncertainty that prevailed in the country during the previous year. The establishment of more concrete regulatory changes in 2017, and a clearer assessment of tariff impacts have allowed for improved planning. Poland's operating environment remains strict and bound to government tariffs and contracts, yet opportunities to develop business continue when combined with strategic cost savings.

From a territory perspective, 23.6% of our revenue (2016: 7.2%) was derived from the international business and 27.6% of our activities (2016: 11.0%) are now in non-acute activities, against a five-year target of between 40% and 50%.

## Life Esidimeni

The Group's leaders, employees and I were deeply troubled by the deaths of our former patients who were transferred from Life Esidimeni facilities to non-governmental organisations by the Gauteng provincial health department between April and June 2016. The investigation by the Office of the Health Ombud confirmed no wrongdoing by the Group and confirmed that many of the non-governmental organisations were not adequately equipped to manage and treat the complex mental and physical health conditions of these patients. We acknowledge the patients and families of this tragedy and share our heartfelt condolences. The Group has since renegotiated with the provincial department to restore operations in Gauteng and has resumed care for approximately 460 patients, out of the total 700 patients who will return to Life Esidimeni.

## Strategy

The Group's vision refers to Life Healthcare being a market leading, international, diversified healthcare provider. We have made significant progress in delivering on our vision this year, primarily in diversification. This diversification refers not only to geographic diversification but also to diversification through our lines of business and associated service offerings. In this regard, the acquisition of Alliance Medical in November 2016 helped us to further enhance the Group's service offering by entering the diagnostic imaging market.

## 2017 in review

To reflect strategic alignment and continuity, my review is structured according to the board focus areas outlined in our 2016 integrated report.

### Delivery of affordable healthcare

Medical healthcare funders continue to be significant cost of care influencers by applying pressure on our business through stringent network agreements or contracts. Engagements continue with medical healthcare funders to develop mutually beneficial clinical services, systems and approaches to patient care in South Africa.

Although progress was made in the employment of doctors under strict conditions in South Africa, we still operate in an environment with critical skills scarcity for professional clinical positions including nurses, pharmacists and radiographers. Competitive wages and salaries are South Africa's core challenge as government continues to provide above-inflation salary increases to government employees, drawing skilled resources from the private sector. The Life College of Learning is one of the Group's initiatives to address skills shortages and has 1 358 students registered in various nursing programmes. This is supported by sponsorships for 327 students to complete nursing specialist courses at the Life College of Learning and various South African universities. Once these students graduate, they will be integrated into our network of hospitals. Commitment to investment in future capacity

is evident in the Group funding the training of specialists through the Public Health Enhancement Fund (PHEF) and Colleges of Medicine South Africa (CMSA) at a cost of R16 million. Life Healthcare is engaging with government to explore possible partnerships and improvements for the provision of affordable healthcare.

In Poland, there has been a rationalisation of operations to further drive efficiencies, centralising shared services to effectively utilise available resources.

### Competition Commission's Healthcare Market Inquiry and National Health Insurance

Internationally, healthcare regulation is growing in line with cost pressures on government and increasing demands for healthcare. Globally, demand for healthcare services is driven by increased disease burden and ageing populations. However, the increased demand increases the cost of healthcare and governments worldwide are increasing regulations to mitigate this.

In South Africa, we remain supportive of the core aim of the HMI which is to assist in understanding how it will promote competition in the healthcare sector in South Africa. Life Healthcare continues to provide submissions and input to the Commission upon request. The revised timetable now indicates that a provisional report is due to be released by April 2018.

We continue to monitor developments of the NHI and contribute positively to the process when called upon. The Minister of Health approved the NHI White Paper six years after the publication of the NHI Green paper. NHI aims to try and address the three objectives of universal healthcare as defined by the World Health Organization (WHO):

- Equity in access
- Adequate quality of healthcare services
- Protection from financial harm

The Group supports the principles outlined by the WHO. However, we are concerned that the model proposed within the NHI White Paper will not enable the achievement of these objectives. Life Healthcare remains concerned about the lack of detail regarding the implementation of NHI and the financing thereof. We remain committed to working with government on NHI in order to ensure that, as a country, we improve the access, quality and affordability of healthcare for all citizens. We believe that there are numerous opportunities for Life Healthcare to assist government in this regard and remain positive and open to engagements.

Brexit has created some political uncertainty, however, the Group only expects an impact on the free movement of clinical expertise. We continue to monitor developments closely.

In Poland, the Group had to absorb an additional 11% tariff decrease to its cardiology business, in January 2017, following the 17% tariff decrease in July 2016. Scanned has renewed contracts and also received contract extensions with the NFZ.

## CHAIRMAN'S REVIEW CONTINUED

In India, Max Healthcare experienced some regulatory headwinds with regulations impacting disposables, cardiac stents and maternity leave.

### Clinical outcomes


Life Healthcare's approach to quality remains stringent, as service quality and clinical outcomes are directly related to the health of our patients, sustainability and efficiency. To reflect this, we established a clinical governance, quality and safety sub-committee of the board with a mandate to oversee and monitor clinical and quality indicators throughout the Group. Prof Marian Jacobs assumed the role of Chairman for the newly established committee.

The committee will examine local and international best practice to ensure high-calibre oversight for clinical outcome matters. We are confident that our close collaboration with doctors will lead to safe, effective care delivery at a lower cost, with improved clinical outcomes.

### Transformation

We are committed to reflecting the demographics in South Africa. We successfully increased African, Coloured and Indian representation by 0.4% across our southern Africa business. In addition to the diversity policy used for recruitment, Life Healthcare provides skills development activities and effective succession planning to ensure that demographic improvements are not short-lived. An example is the Life Healthcare Nursing Education Trust established in June 2017. The Trust will provide nursing bursaries to people from disadvantaged backgrounds. In 2017, the Group invested R81 million in B-BBEE related activities.

63% (2016: 58%) of our executives and managers (middle management and above) are female.

Our transformation efforts are yet to materially reflect in the Group's B-BBEE scorecard. Some of the challenges of the new Codes adopted under the B-BBEE Act remain skills development and procurement spend on products through international suppliers who no longer use local agencies. This negatively affected our score, and the Group is reviewing alternative approaches and procedures to address this issue. We are striving to achieve improved ratings, with the current year's measures achieving a level 7 rating based on internal assessments, which are currently in the process of being verified externally. Refer to  page 73 for our B-BBEE recovery forecast.

### International expansion

On 21 November 2016, Life Healthcare completed the acquisition of Alliance Medical with an enterprise value of R13.9 billion. Alliance Medical is Europe's leading independent provider of imaging services. The acquisition

further diversified the Group's international revenue, and we expect solid underlying growth for MRI, CT and PET-CT across Europe.

A rights offer of R9 billion was successfully concluded in April 2017 to partly fund the Alliance Medical acquisition. The majority of our employees participated in the rights offer through the employee share schemes.

Our international operations in Scanmed and equity investment in Max Healthcare face unique challenges and opportunities of their own. Scanmed revenue decreased by 6.7% to R1 095 million, and we continue to monitor government-instituted tariff changes that had a significant impact on the business, resulting in a R167 million impairment in the current year. Scanmed operations are well positioned to remain profitable and effective. Significant NFZ contracts are being secured, rationalisation processes are underway, and strategy revisions are taking place in the business.

Our share of Max Healthcare's net loss after tax was R27 million. The operating environment has been challenging due to regulatory changes and a weaker dengue fever season compared to last year. The management team has implemented plans to mitigate the impact of these challenges. We increased our shareholding in Max Healthcare to 49.7% following the exit of the International Finance Corporation (IFC) (2016: 45.95%), maintaining equal shareholding with our joint venture partner, Max India.

We look towards improving our operational efficiency in each geographic area to reduce operational costs and improve patient outcomes. The bedding down of approaches, transferring of skills and sharing of best practice will facilitate this.

## Governance and leadership

We continuously look to develop our governance and reflect an ethical and accountable leadership focused on genuine value creation for all stakeholders. We welcome the introduction of King IV, which we believe to be a more practical and applicable code of governance than King III. We will align our practices and disclosure to King IV to ensure our governance culture and processes support our value-creation activities in the years to come.

### Leadership changes

The board, together with André Meyer, decided he would step down as Group Chief Executive Officer and as a member of the board, effective 30 June 2017. The board would like to thank André for his contributions to



Life Healthcare, and we wish him well in his future endeavours.

The Group's nominations committee contracted a reputable international agency to find a suitable candidate with relevant experience and skills to fill the role of Group Chief Executive Officer. In the interim period, Pieter van der Westhuizen, the Group Chief Financial Officer, was the acting Group Chief Executive Officer. We thank Pieter for capably stepping in during this period. Dr Shrey Viranna was appointed as the new Group Chief Executive Officer, effective 1 February 2018. We welcome Shrey to the Group and believe that his medical background and industry-related experience will prove invaluable in leading Life Healthcare.

Louisa Mojela resigned as a non-executive director with effect from 25 January 2017. She was a board member from June 2010. The board thanks Louisa for her valuable contribution during her tenure. Adv Mahlape Sello and Audrey Mothupi were appointed as independent non-executive directors of Life Healthcare with effect from 3 July 2017. They bring legal, strategy and IT skills as well as a wealth of experience to the board, and we look forward to their respective contributions.

These two appointments were made after the board evaluation in 2016 identified legal and IT skills as skills to be enhanced at board level. We are satisfied with our board expertise and structure at present and are assessing the need to bring more international experience to the board given our international aspirations.

### Board focus areas for 2018

Our key focus areas from a board perspective will be:

- effective on-boarding of the new Group Chief Executive Officer;
- approval and implementation of the revised strategy;
- monitoring delivery against the agreed strategic objectives;
- monitoring and contributing to the HMI process and our response to its possible findings and recommendations;

- NHI development and its impact on our southern Africa business;
- delivery of the strategy that will result in shareholder value accretion;
- monitoring the growth delivery within Alliance Medical
- monitoring the management and execution of the Poland turnaround process.

Other areas that will receive attention are appropriately addressing medical healthcare funder pressure (including assessing prominent contracts) and improving our B-BBEE performance and score.

### Appreciation

My thanks to our patients, doctors, nurses and employees for your continued support. Your integral roles in our business make Life Healthcare what it is today, and drive our potential to be better tomorrow. To our management and executive teams who add significant value to our strategic and operational efforts, your commitment shapes our performance. Thank you for carrying out your duties responsibly and diligently while leading by example.

Thank you to our shareholders for your continued support. We note your clear vote of confidence through the full subscription in the R9 billion rights offer. We believe the acquisition will enhance shareholder value in the long term.

I can say with confidence that throughout our progression this year, I had the committed support of a skilled board. Your inputs ensured the Group's continued alignment to strategy to meet our ultimate objectives and, where necessary, the revision of our strategic focus. Thank you for leveraging your skills and providing valuable insights.



**Mustaq Brey**  
Chairman





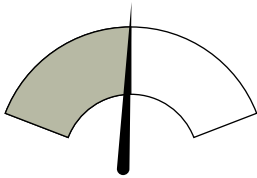
# STRATEGY

## OVERVIEW

We updated our strategy in line with the current and expected future operating environments of global healthcare provision. We reviewed Life Healthcare's key strengths and weaknesses to ensure appropriate leveraging and mitigation respectively.

### Strategic objectives

The strategic focus areas of growth, efficiency, quality and sustainability feed into the three strategic objectives as outlined below. The table also provides insight into our progress towards achieving these objectives.

<h1>1</h1>	<p>Accelerate the transition from a South African focused acute care group to an international, diversified healthcare provider:</p> <ul style="list-style-type: none"> <li>• Target of between 40% and 50% of revenue from international businesses and between 40% and 50% from non-acute revenue</li> </ul>	<p><b>Significant progress</b></p> <p>With the acquisition of Alliance Medical, 23.6% of our revenue (2016: 7.2%) and 19.0% of normalised EBITDA (2016: 2.8%) are from international territories.</p>	
<h1>2</h1>	<p>Evolve the Group's delivery model to target a more diversified offering increasing revenue from non-acute lines of business:</p> <ul style="list-style-type: none"> <li>• Scale up the Group's complementary service offering, including increasing our geographic presence in acute rehabilitation, mental health, renal dialysis, oncology, radiology and pathology</li> <li>• Expand our service offering by investigating allied opportunities within the healthcare arena</li> </ul>	<p><b>Significant progress</b></p> <p>The acquisition of Alliance Medical increased the Group's business line diversification. 27.6% of Group revenue (2016: 11.0%) is now non-acute. The Group also made incremental progress in complementary service provision. Some of the key enhancements are:</p> <ul style="list-style-type: none"> <li>• increased beds and presence in mental health;</li> <li>• new oncology units and equipment;</li> <li>• the conclusion of the EOH Workplace Health and Wellness transaction; and</li> <li>• extensive Life Employee Health Solutions contracts such as the Gauteng provincial government contract covering over 160 000 lives.</li> </ul>	
<h1>3</h1>	<p>Focus on increasing performance and health of the Group with the aim of Life Healthcare being the preferred hospital group in terms of efficiency and quality healthcare services:</p> <ul style="list-style-type: none"> <li>• Address key enablers including quality standards, nursing efficiency, enabling technology and doctor engagement</li> <li>• Build capabilities across operational, executive and international teams</li> </ul>	<p><b>Moderate progress</b></p> <p>We established a clinical governance, quality and safety board sub-committee to holistically enable our efforts across the Group. This supports further control of clinical outcomes in an environment where we do not employ the bulk of doctors we interact with. Our doctor quality and efficiency reporting programme was piloted successfully with marked doctor efficiency improvements.</p> <p>An additional five regional clinic managers (who are qualified medical doctors) were employed in South Africa, to engage with clinicians on clinical matters. Knowledge and skills sharing across territories supports capability development across the Group.</p>	

## Strategic focus areas

We enhanced our core focus areas of growth, efficiency, quality and sustainability. Our strategy revision has further aligned our focus areas to the Group's five-year objectives.



## Growth

**C**ontinue to grow our southern Africa business while establishing a sizeable international business, resulting in a diversification of our sources of revenue.

### What does this mean?

#### Grow the southern Africa business

The Group seeks to be a market-leading, innovative provider of cost effective quality healthcare. This is achieved by effectively partnering with clinicians to operate our acute hospital business and complementary services.

Life Healthcare employs a range of growth enhancement approaches to expand our footprint and develop new clinical products to diversify our offerings, such as:

- expanding facilities within existing hospitals (brownfield expansion) by adding additional beds, wards and/or operating theatres – brownfield projects will be pursued at hospitals with high occupancies and where good returns are projected;
- growing our complementary services business and expanding our healthcare services;
- acquiring facilities that complement our existing geographic spread of hospitals;
- building new facilities (greenfield expansion) in areas with no Life Healthcare footprint – greenfield projects have to meet set criteria including a proven need for services, desired occupancy levels and a solid doctor commitment;
- pursuing potential opportunities to assist government to extend universal healthcare, primarily through Life Esidimeni and possibly Life Employee Health Solutions;
- exploring new revenue models and clinical pathways to enhance profitability and effectiveness; and
- assessing and integrating significant alignment opportunities within our various territories.

#### Establish a sizeable international business footprint

The Group's international expansion is focused on selected attractive markets with the potential to support the longer-term growth of the private healthcare market.

##### *Alliance Medical*

The acquisition of Alliance Medical enables significant growth opportunities internationally. The geographies within which Alliance Medical operates continue to show good underlying demand for complex diagnostics.

Alliance Medical is uniquely positioned to enhance existing partnership models to fulfil the growth needs for complex diagnostic imaging. This will be done through a combination of greenfield solutions and targeted acquisitions that complement the existing footprint and integrated business model.

##### *Scanmed*

Due to regulatory changes in Poland, Scanmed focused on efficiency enhancement and integration into the Group. Scanmed concluded four-year contracts with the NFZ for 85% of its business with the balance expected to be completed in 2018.

##### *Max Healthcare*

The business's growth strategy focuses on adding bed capacity with the aims of having over 3 100 operational beds by 2021. The Indian healthcare market continues to show promise and growth, driven by an expanding middle class with increased demand for private healthcare services. An ageing population with a growing disease burden indicates long-term opportunities to enhance and expand facilities in the country.

## STRATEGY OVERVIEW CONTINUED

### 2017 performance

2017 priorities	2017 progress
<p><b>Grow the southern Africa business</b></p> <ul style="list-style-type: none"> <li>• Prioritise brownfield projects requiring additional capacity, aiming to add 115 acute beds</li> <li>• Open the 60-bed Life Carstenview mental health facility</li> <li>• Continue applying for bed licences in areas that will enhance Life Healthcare's footprint and deliver good growth</li> <li>• Continue to invest in facility upgrades and more advanced technology equipment</li> <li>• Commission Life Oncology at Life Eugene Marais Hospital</li> <li>• Finalise the B-BBEE trust for Life Occupational Health</li> <li>• Diversification through expansion of existing services and entry into new markets</li> <li>• Development of new products and services tailored to the affordable market and/or aimed at lowering the cost of care</li> </ul>	<p>51 brownfield beds were added in acute hospitals, and 22 brownfield and 60 greenfield beds were added in complementary services. The oncology unit at Life Eugene Marais Hospital was opened mid 2017, and a mental health facility was opened at Life Carstenview.</p> <p>R382 million was invested in facility upgrades and technology equipment. The southern Africa business was granted 160 (2016: 176) bed licences.</p> <p>The B-BBEE trust for Life Occupational Health was finalised in June 2017. The EOH Workplace Health and Wellness transaction was completed with effect from 1 October 2017.</p>
<p><b>Establish a sizeable international business footprint</b></p> <ul style="list-style-type: none"> <li>• Life-sizing<sup>1</sup> of Poland</li> <li>• Position the Polish business to appropriately win new government contracts</li> <li>• Expansion into a third territory</li> <li>• Margin expansion through cost containment, integration and operational leverage in Poland and India</li> </ul>	<p>The Poland turnaround strategy progressed well, and four-year contracts covering 85% of the business were concluded with the NFZ with the remaining 15% expected to be completed in 2018. Despite the cardiology tariff cuts, revenue for Scanned remained stable at R1 095 million.</p> <p>Max Healthcare continues to show good revenue growth and EBITDA margins remained stable at 10.8% (2016: 10.9%).</p> <p>The Alliance Medical acquisition expanded the Group's footprint into western Europe, particularly the UK, Italy, Ireland, Spain and Germany.</p>

### 2018 priorities

#### Southern Africa

- Recruit additional doctors to replace departing and diminishing-activity doctors, and fill critical vacancies
- Focus on increasing existing occupancies
- Adopt a more cautious bed growth strategy focusing on brownfield growth
- Entrench and expand the mental health and acute rehabilitation footprint
- Invest in facilities through upgrades and procurement of appropriate technology equipment

#### International

- Alliance Medical:
  - Complete the roll-out of the PET-CT contract sites
  - Continue to develop long-term imaging service partnership solutions with NHS Trusts and commissioners
  - Continue the molecular imaging growth in Europe and the clinic acquisitions in Italy
- Scanned:
  - Complete the outstanding NFZ contracts
- Max Healthcare:
  - Continued bed growth in existing facilities and organic growth of the digicare, pathology and oncology day centre businesses

<sup>1</sup> A Life Healthcare term that defines the high-performance culture and operational values of our Group.



## Efficiency

**D**eliver cost effective care through efficient, optimal utilisation of processes, information, technology, research, innovation and other resources.

### What does this mean?

We are focused on providing high quality care while effectively managing all hospital costs, including cost of sales, labour and overheads. This allows the Group to maintain high levels of efficiency while allocating resources optimally. Relationships with our employees, medical healthcare funders, procurement partners and doctors are included as efficiency-enabling opportunities.

### 2017 performance

2017 priorities	2017 progress
<ul style="list-style-type: none"> <li>• Continue to leverage formulary compliance in pricing negotiations</li> <li>• Develop and implement select clinical pathways with direct links to product, hospital and supporting service providers' utilisation</li> <li>• Appoint regional clinical managers in southern Africa to drive improved efficiencies at hospitals</li> <li>• Identify hospitals with opportunities to improve efficiencies and additional areas where improvements can be made</li> <li>• Improve clinical coding accuracy through continuous training, focus and introduction of exception reports in southern Africa.</li> </ul>	<p>Various operational efficiency initiatives were implemented. These include point-of-care approaches, environmentally friendly operational upgrades and increasing the use of digitised tools to streamline processes and improve business intelligence through data analysis.</p> <p>A pilot programme for doctor quality and efficiency reporting delivered doctor efficiency improvements and was rolled out to 1 200 clinicians throughout southern Africa, with continued engagement and feedback.</p> <p>Formulary compliance efforts are reflected in price containment that contributed to positive margins.</p> <p>Various IT infrastructure upgrades are complete or being piloted to support future efficiency improvements across a range of hospitals, including financial and patient administration management.</p>

### 2018 priorities

#### Southern Africa

- Develop clinical pathway products which can be implemented
- Continued leveraging of pricing negotiations through compulsory and formulary compliance
- Enhance the doctor quality and efficiency reporting and continue engaging with clinicians
- Introduce cost optimisation projects including the iShift (advancement through continuous improvement) initiative focused on efficiency and removal of waste in processes
- Commence development of the clinical information system

#### International

- Margin expansion through cost containment, integration and efficiency initiatives in Scanmed and Max Healthcare

## STRATEGY OVERVIEW CONTINUED



### Quality

**D**eliver market-leading quality care.

#### *What does this mean?*

Stringent reporting, analysis and action for quality metrics are essential in delivering world-class healthcare. The Group aims to maintain and improve its quality performance through rigorous quality reporting and benchmarking. This includes clinical outcomes, patient satisfaction and stakeholder health and safety.

#### *2017 performance*

##### 2017 priorities

- Enhance patient experience in key areas such as maternity, surgical wards, paediatric and neo-natal
- Improve flow of patients through emergency units
- Finalise international quality measures to be implemented and benchmarked against Life Healthcare norms
- Extension of the electronic intensive care unit (e-ICU) pilot to more beds

##### 2017 progress

The Group initiated programmes such as BetterObs, and transitioned into the second phase of the CARE programme to include approximately 5 000 outsourced service providers that influence or impact patient experience. These initiatives resulted in a marked improvement on patient satisfaction.

We employed an additional five regional clinical managers in southern Africa to improve collaboration with doctors, especially for new care delivery models. Our new clinical governance, quality and safety board committee was formed to monitor and improve all aspects of our clinical performance from a board perspective. In addition, this committee will review international quality measures.

The e-ICU project remains in pilot phase and increased to include 13 beds at Life The Glynwood.

#### *2018 priorities*

- Improve flow of patients through emergency units, with a focus on enhanced service offering to all patients
- Agree on international quality measures for implementation and benchmarking
- Publish facility patient experience scores online
- Introduce enhanced care plans as part of clinical pathways





# Sustainability

**E**ffectively engage with our stakeholders to ensure our long-term sustainability.

### What does this mean?

Social, environmental and financial stability underpinned by effective stakeholder engagement support our sustainable operation locally and internationally. The Group recognises the importance of our licences to operate in various territories and the stakeholders in each who directly influence our success. Life Healthcare remains focused on its sustainability goals by:

- building partnerships with medical healthcare funders to ensure network participation, and providing preferred network products and services to meet patient and funder needs – this will support retention of our overall share of the healthcare market;
- implementing sustainable human capital strategies and practices that meet the challenges of a dynamic commercial and legislative environment;

- driving our B-BBEE strategy to harness corporate growth and development opportunities in a sustainable manner and ultimately improve our B-BBEE rating;
- building partnerships with doctors and other key healthcare professionals;
- partnering with government in all our territories and participating in healthcare reform in South Africa;
- securing long-term partnerships with public health providers for molecular and diagnostic imaging services;
- developing quality cooperation and positive relationships with the public and municipal bodies of the Polish government to secure long-term financing for our healthcare services – this includes NFZ and other public authorities who control healthcare funds; and
- implementing an environmental sustainability strategy.

### 2017 performance

#### 2017 priorities

- Actively recruit sub-specialists from Life Healthcare and Colleges of Medicine South Africa (CMSA) to take up opportunities within the Group
- Develop enhanced partnerships with admitting doctors and incorporate referring general practitioners in emergency units
- Identify undergraduate doctors and provide early orientation to hospital private practice for specialists in training
- Accelerate nursing bridging course take-up prior to introduction of the new qualification criteria
- Drive and maintain a competitive B-BBEE scorecard rating to facilitate growth
- Differentiate ourselves through a patient-centric brand strategy
- Finalise the B-BBEE trust with 25% +1 share ownership in Life Occupational Health

#### 2017 progress

Under strict conditions, we are able to employ doctors for our ICU, maternity and accident and emergency units after special dispensation was obtained from the HPCSA in July 2017. The Group will apply this dispensation with careful discretion going forward. We increased the number of associated doctors by 84, with the average age of new doctors being 45 years.

The Life College of Learning has 1 358 students registered, with a 35.8% increase in registered nurses to mitigate the risk associated with the phasing out of the current basic nursing qualifications.

The Group established the Life Healthcare Nursing Education Trust in June 2017 to provide nursing degree bursaries for previously disadvantaged individuals.

Improving our B-BBEE score remains a challenge, and we increased to a compliant rating following several initiatives to improve our rating.

### 2018 priorities

- Drive a competitive B-BBEE scorecard and improve our rating to facilitate growth for South Africa
- Identify and recruit undergraduate doctors and provide early orientation to hospital private practice for specialists in training
- Continued improvement in our environmental performance including reducing water usage by 2% measured in kilolitres
- Install solar panels at a minimum of one additional facility
- Manage healthcare risk waste (HCRW) to below 2.5kg/ppd
- Obtain ISO 14001 accreditation of medium-sized facilities
- Embed integrated talent management and succession strategies
- Replace the current billing engine with Impilo

# GROUP CHIEF

## EXECUTIVE OFFICER'S REVIEW



**T**he acquisition of Alliance Medical has enabled the Group to further diversify our business into more non-acute lines of business and internationally. This is our first substantial foray into the diagnostics market which is underpinned by good growth characteristics.



**Pieter van der Westhuizen**  
Acting Group Chief Executive Officer

### The year in numbers

Group revenue increased by **26.8%** to **R20.8 billion**, with **76.4%** revenue from southern Africa and **23.6%** from international territories

Group EBITDA increased by **15.9%** to **R5.0 billion**

Normalised EPS decreased by **44.6%** to **93.9 cents**

Distribution of **80 cps** paid to shareholders

#### Southern Africa performance

PPDs decreased by **1.7%**  
Healthcare associated infections (HAIs):  
**0.42** per 1 000 PPDs

Recommend score increased by **0.6%** to **70.0%**

#### Alliance Medical performance

Revenue contribution of **R3 812 million**  
Normalised EBITDA margin: **23.8%**

#### Poland performance

Revenue decreased by **6.7%** to **R1 095 million**  
Normalised EBITDA margin: **4.0%**

Refer to the Group Chief Financial Officer's review on  page 52 for the financial performance of the year.

2017 was marked by challenging conditions in South Africa and Poland. However, the Group weathered these difficult conditions and is well placed within these territories going forward. The acquisition of Alliance Medical will allow the Group to grow its diagnostics business in the UK and Europe, and although Max Healthcare experienced challenges due to regulatory impacts, we are optimistic about the future opportunities that India offers.

## The year in review

This review is provided according to our material matters defined on  page 32.

### Cost of care

The increase in healthcare demand across the world due to the growing disease burden and ageing population, has resulted in governments and medical healthcare funders increasing their focus on trying to manage the cost of care. This is done through a combination of managing the cost or price of the event and/or managing the utilisation. Across our different territories we have experienced a combination of these measures. In Poland, we had tariff decreases mainly affecting the cardiology division of our business, and in the Alliance Medical business, there is constant pressure on the price of diagnostics. In South Africa, in the effort to reduce the cost of the event, medical healthcare funders are increasing their focus on managing hospital utilisation through more aggressive managed care techniques and preferred network agreements.

Our approach remains one of driving efficiencies, where possible, to help reduce cost of care, while maintaining quality of care levels and engaging with stakeholders to find alternative solutions to traditional problems. The use of IT to drive standardisation, lessen the administrative burden and to explore innovative solutions, is an opportunity that continues to receive significant attention in our efforts to drive down the cost of care. Going forward, we will collaborate with our doctors to introduce clinical pathways which improve the quality of care and the efficiency of delivery. We will continue to try and find ways to enhance our overall engagement and relationship with medical healthcare funders. We trust that this improved interaction will further develop our partnership for the benefit of all South Africans.

### Specialised skills shortages

Due to the niche nature of the market we operate in, obtaining and retaining clinical professionals, remains a challenge. The Group recently obtained special dispensation from the HPCSA to recruit doctors for our ICU, maternity and accident and emergency units in South Africa. Although this dispensation has strict conditions, we will be able to improve the overall level of care provided to our patients through aligning clinical quality and efficiency programmes.

We operate various training programmes and activities, and are engaging with the South African government to secure more partnership-driven approaches to training and development for mutual benefit.

### Government relationships

Aside from setting regulation and policy, government entities are significant customers in all our territories. As such, we continuously seek to maintain and enhance our relationships with government.

In South Africa, we look to build relationships with the national and regional departments of health. However, 2017 was a difficult year, particularly with regards to the Life Esidimeni tragedy involving the Gauteng Department of Health. We express our heartfelt condolences to the families of the patients involved. We are hopeful that going forward, what transpired will never be allowed to happen again, and we look forward to proactively working with the Gauteng Department of Health in facilitating treatment of patients in the care of Life Esidimeni.

Life Healthcare will work with government and other private healthcare players in the development of the NHI, ensuring that the model that is introduced enables South Africa to achieve the universal healthcare goals as stipulated by the World Health Organization.

Alliance Medical has a 25-year track record of successfully working in partnership with public health bodies. This was traditionally in the form of relatively short-term service contracts that are becoming increasingly long-term in nature, primarily through formal partnership agreements. This was evidenced by the recent 10-year agreement for the provision of all PET-CT services for over 50% of England's population. All publicly provided budgets were renewed successfully in Italy and the business's other geographies.

In Poland, the Group secured NFZ contracting with two multi-specialist hospitals and five cathlabs being granted four-year contracts. A tender process is underway for units outside the network. The Group has to date secured contracts for 85% of the business and is confident that the remaining contracts will be secured by the first half of 2018.

### Onerous and increasing regulations

In southern Africa, we maintain our licence to operate by complying with the various policies and regulations such as the Health Act, Regulation R158 and R187 – Control of Private Hospitals. The new B-BBEE codes have provided a significant challenge for compliance; however, adequate policies and procedures are in place to improve our performance in the long term. Based on internal assessments, the Group will achieve a level 7 rating for the 2017 financial year, this is currently in the process of external verification.

## GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

The possible impacts of the NHI are becoming clearer with the publication of the White Paper on 28 June 2017. We continue to monitor developments and consider response strategies to mitigate negative impacts and pursue potential opportunities.

While the Brexit decision led to political uncertainty throughout Europe, each of our Alliance Medical operations operates within its own country borders with limited cross-border activity. Although some uncertainty remains as to the cross-border movement of people and the impact on currencies, the in-country impacts of Brexit on Alliance Medical appear to be negligible – outside of the broader macro challenges faced.

Poland's regulatory market was initially challenging as two tariff reductions adversely affected the businesses' cardiology segment. The ultimate result of the healthcare reform in 2017 has further provided opportunities through four-year public financing contracts for the business.

### Quality of care standards

Delivering high quality care while controlling and reducing costs is a global concern and a key focus area. In southern Africa, additional categories and sub-categories were added to our incident reporting metrics as we enhance our systems year-on-year. Some quality and clinical indicators increased due to this intensified risk focus. In general, there is more attention on patient rights, ensuring high quality care and patient safety in our healthcare facilities.

We appointed an additional five regional clinical managers in South Africa to enhance doctor collaboration and partnerships, particularly around designing and implementing new care delivery models. The Group now employs 33 clinicians, in southern Africa, on a permanent basis to assist in the delivery of high quality care.

Alliance Medical's corporate and clinical governance processes will be retained and integrated appropriately with existing Group practices to achieve synergies. The quality metrics of both Scanmed and Max Healthcare were reviewed. Each territory operates under different accreditation bodies with different outcome measures. Although it is not feasible to integrate the southern Africa measures into these territories, oversight and revision of all quality activities will be spearheaded by the board's clinical governance, quality and safety committee established on 11 May 2017. The objectives of this committee are as follows:

- Monitor and manage the clinical performance across all clinical service providers associated with our services

- Constantly evaluate the effectiveness of our:
  - quality systems (improvement and assurance);
  - patient and employee safety systems; and
  - infection prevention strategies.
- Simplify and attain uniform standards where possible to ensure compliance with:
  - clinical care standards (doctors, nurses, pharmacists, paramedics and radiologists);
  - clinical governance;
  - accreditation; and
  - country-specific regulations including licensing, registration and validation.


### Labour relations and employee retention

The cost of labour is our biggest expenditure, at R6 957 million (2016: R5 598 million). Over the past three years, we implemented a number of targeted interventions including benefit improvements, a targeted clinical allowance structure and improved development opportunities to address the retention of employees. Our employee turnover rate in South Africa is 10.6% (2016: 14.1%), the lowest that the Company has ever attained. However, retention of scarce clinical skills remains difficult in a salary and benefit-driven market, especially when government institutions provide above inflation increases.

### Medical healthcare funders

Medical healthcare funders are key stakeholders who provide 95% of the hospital division revenue in southern Africa. Therefore, maintaining and improving relationships with them is becoming increasingly important. Government Employees Medical Scheme (GEMS) and Discovery Health represent 53% of southern Africa's hospital division revenue. There has been a steady increase in preferred networks in South Africa over the last few years, a trend which is not unexpected. Life Healthcare is a significant participant in the preferred networks despite the three-year exclusion of 14 Group hospitals from the Bonitas Medical Fund network in 2017. We are a key participant in the new GEMS network and the two Discovery Health networks Keycare and Delta. The Discovery Health contracts for Keycare and Delta networks were concluded for a further three years at acceptable terms, to 2021.

We continue to engage with the medical healthcare funders on various opportunities to improve the efficiency and quality of care provided in our hospitals and complementary service businesses.

For a territory-based performance synopsis from each of our business's chief executive officers, refer to  pages 60 (southern Africa), 80 (Alliance Medical) and 88 (Poland) respectively.

## Alliance Medical acquisition

We completed the acquisition of Alliance Medical in November 2016, and funded it through a combination of debt and equity. Alliance Medical's business supports our core business activities as set out in the table below.

Area	Alliance Medical's offering
Enter markets and market segments with higher growth opportunities	Alliance Medical has a strong underlying demand driven by demographics, disease burden, advances in medical technology and an increasing focus on early diagnosis. The NHS are forecasting PET-CT growth of approximately 10% per annum over the next seven years. Management anticipate UK MRI activity to be in line with the annual growth over the last five years, being strong single-digit rates. The acquisition of Alliance Medical diversifies Life Healthcare into strategically important and fast growing diagnostics markets. This market generates good cash flow, positive margins and has promising growth prospects.
Continued expansion of the complementary services disciplines	Life Healthcare views the entry into diagnostics as a natural part of our strategy. This acquisition allows us to further our expansion of the complementary services business, adding diagnostics to mental health, acute rehabilitation, renal dialysis and oncology services.  Alliance Medical uses proprietary technology to deliver networked services. The molecular imaging activities of the business are vertically integrated with radiopharmaceutical manufacturing, enhancing its oncology service presence.
Market leadership	Alliance Medical has a market-leading position in its core geographies, namely the UK, Ireland and Italy, and it holds a strong presence in a number of other European countries. In addition, the business is a key partner with national, regional and private healthcare providers in the markets in which it operates, an example being the NHS in England.
Experienced and committed management team	Alliance Medical has an experienced management team with an average of over 15 years' experience in the healthcare industry. The management team has been in place for over six years and further demonstrated its commitment to the Group when the senior leadership team co-invested with Life Healthcare into the business acquisition.
Geographic diversification	Alliance Medical operates a range of highly complex diagnostic scanning and molecular imaging services from fixed and mobile locations in 10 European countries. Through this investment, Life Healthcare now generates 23.6% of its revenue outside South Africa.



## GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

### Vision for the future

We refined our strategy in line with attaining our strategic objectives set out on page 20. The most noteworthy change was intensifying our diversification and international revenue target. Our goal is to obtain 50% of our revenue from our international businesses by 2022, compared to the current 23.6%, and to expand our non-acute business to between 40% and 50% of our total business from our current 27.6%. We will specifically target markets and lines of business with good growth characteristics and which complement our existing business.

From an operational perspective, our management teams are working on various cost improvement and efficiency initiatives across the various territories as well as exploring growth opportunities. The difficult trading year necessitated a more clinical focus that will be driven by leveraging our people and assets. This will include skills and knowledge sharing across our territories, enhancing our opportunities to improve performance and ensuring that the Group remains a preferred healthcare services provider.

### Leadership changes

The board, together with André Meyer, decided he would step down as Group Chief Executive Officer effective 30 June 2017, and I would like to thank André for the commitment shown to the Group during his tenure. I wish him well.

The board requested that I act as interim Group Chief Executive Officer while the recruitment process is underway. To assist the Group's leadership during this time of change, I established an operational executive board that is responsible for operational delivery across the Group, and leveraging inter-territorial synergies.

The capable and experienced operational executive board comprises Lourens Bekker (Chief Executive Officer: Southern Africa), Guy Blomfield (Chief Executive Officer: Alliance Medical), Hubert Bojdo (Chief Executive Officer: Scanmed), Adam Pyle (Group Strategy and Investor Relations Executive) and Dr Charles Niehaus (Chief Medical Officer: Alliance Medical).

The Group has since recruited Dr Shrey Viranna as of 1 February 2018, and we welcome him to the Life Healthcare family.

### Appreciation

Our board and executives have shown their resilience during the last year, considering the current and future needs of the business in a proactive manner. This includes our non-executive directors who provided positive input into our activities and guidance on Life Healthcare's path. To Dr Nilesch Patel and Juliet Mhango, who resigned from the executive during the year, I extend my thanks for your counsel and commitment to our business during your time with us.

I officially welcome Alliance Medical's management and employees to Life Healthcare. We look forward to your valued contribution as we seek to grow the diagnostics component of our business.

To our partners, specifically our doctors, we appreciate your loyalty and commitment to quality that supports the Life Healthcare brand. Your efforts have ensured that the care we provide is of the best possible quality in a highly competitive industry. To every employee in the Group, your support, direct and indirect, to our doctors and nurses as well as your empathy to our patients continues to be exemplary. We could not operate successfully without you, and we appreciate your daily efforts in this regard. I would also like to make special acknowledgment of our Life Esidimeni employees who have had to face a particularly challenging period following the death of many former patients. Many of these employees had a personal connection with the patients formed through years of direct care. You performed admirably and with compassion during a very difficult time, and we commend you.

I extend my thanks to our employees who are the faces, hands and hearts that represent the five Life Healthcare core values to our patients. You personify our passion, our commitment to building a lifetime of partnerships, our focus on performance, and our dedication to quality care. We look forward to another year of value creation by providing quality healthcare to patients in all of our operations.



**Pieter van der Westhuizen**  
*Acting Group Chief Executive Officer*

# MATTERS THAT INFLUENCE VALUE CREATION

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# MATERIAL MATTERS

The Group defines a matter as material if it has a direct or indirect impact on our ability to create, preserve or erode financial, economic, environmental and social value for the Group and its stakeholders. A range of internal and external influencers were taken into account when distilling these material matters. These included strategy, the board's agenda, management reports, external operating environment, stakeholder expectations (page 40) and the key risks analysis (page 43).

The Group no longer recognises the 'growth through expansion' material matter as it stood in our previous report.

The broad nature of this material matter was assessed, and the key elements of the definition were incorporated into other Group material matters. All relevant aspects and impacts of our relationships with medical healthcare funders were consolidated into a stand-alone material matter.

Life Healthcare regards the following matters as material in the short, medium and long term. We engage and respond to the material matters through our strategic focus areas as indicated for each.

## 1. Cost of care

**C**ost of care impacts on the Group's profitability and growth in all of our territories.

The following factors impact on the cost of care:

- Costs of input materials and services to operate efficiently and with a high level of quality (closely linked to the 'quality of care standards' material matter)
- Exchange rate impacts on imported necessities such as surgical consumables and medical equipment
- The volume of patients accessing healthcare
- Patient attraction, as approximately 75% of patients on medical insurance in South Africa are not directed to particular hospitals
- Affordability of southern African private medical insurance market and existing members buying down their medical insurance options or abstaining from using medical insurance
- South African medical healthcare funders, which are a significant revenue source, and provide access to patients – refer to the 'Medical healthcare funders' material matter
- Labour cost which accounts for about 44% of total Group overheads, including wage increases and scarce and critical skills such as specialised and registered nurses
- Ability to adapt nursing staffing levels to align with occupancies and to meet the needs of the patients
- Partnerships with doctors and other medical professionals
- Increases in onerous regulations which are routinely accompanied by increased costs to achieve compliance
- Governments' continued drive to reduce healthcare costs

### Strategic focus areas



### Affected stakeholder groups

Government; shareholders; investors and financiers; industry and regulatory bodies; patients; medical healthcare funders; government as a customer; doctors and consultants; suppliers

## 2. Specialised skills shortages

South Africa has a general shortage of doctors, pharmacists, specialist nurses, registered nurses, specialised ICU nurses and other healthcare professionals that may adversely impact service delivery, cost of care and growth. Some of Alliance Medical's markets are experiencing a shortage of radiography skills. Poland's shortage of qualified medical personnel is expected to increase.

The following factors impact on skills shortages:

- A highly competitive employment market with above-inflation wage increases provided by the South African government and other institutions
- Training of nurses in South Africa through the Life College of Learning – a registered higher education institution
- Skills development, training, bursaries and sponsorships
- Leveraging skills and knowledge transfers from facilities in Alliance Medical, Poland and India to South Africa, specifically in areas such as oncology (India), and gynaecology and cardiology (Poland)

### Strategic focus areas



### Affected stakeholder groups

Government; employees; doctors and consultants

## 3. Government relationships

Governmental impacts range from originating laws and regulations to issuing licences to operate. The government is the main source of revenue for Alliance Medical and Scanmed, and contributes significantly to southern Africa and Max Healthcare's revenue.

The following factors impact on government relationships:

- PPPs directly affect government policies and spending
- Bed licences are required for brownfield and greenfield expansion in southern Africa
- Revenue and profitability are impacted by any healthcare regulatory reforms and tariff changes
- The public sector provides a significant portion of Alliance Medical's revenue, making the reforms, contract awarding and reductions or delays in payments, highly significant to profitability. In addition, Alliance Medical operates across other European countries, although slightly less material from a revenue stance. Its revenue in these countries can also be impacted by regulation and policies

### Strategic focus area



### Affected stakeholder group

Government; government as a customer

## MATERIAL MATTERS CONTINUED

### 4. Onerous and increasing regulations

The Group operates in a highly regulated industry which affects the cost and quality of care and growth of the Group, and can also impact information systems and security. Non-compliance may lead to penalties or withdrawal of our licence to operate, and holds reputational risk for the Group.

The following factors impact on onerous and increasing regulations:

- Regulations relating to matters such as licences, conduct of operations, security of medical records, occupational health and safety, quality standards and certain categories of pricing
- Life Healthcare's rating relating to the new B-BBEE codes dropped significantly in the prior year, and the Group is now a Level 7 contributor based on internal assessments which are currently being verified externally
- The possible impacts of the HMI and NHI in South Africa are currently unclear
- Brexit is expected to have a minor impact on our in-country operations; however, the final impacts create a level of uncertainty
- Austerity measures throughout Europe continue to drive increased regulation and monitoring, particularly in the capacity-constrained public health markets

#### Strategic focus areas



#### Affected stakeholder group

Government; industry and regulatory bodies

### 5. Quality of care standards

Maintaining and improving the quality of care in all our territories is integral to the Group's core values and to building strong relationships with key stakeholders such as government, medical healthcare funders, patients and doctors. Adverse events could potentially cause harm to patients and affect the Group's reputation.

Quality of care standards is closely linked to the 'cost of care' material matter as a balance between effective and profitable service provision. It is guided and impacted by a variety of factors, including the following:

- Government and other regulators that require adherence to various standards and practices
- The Group's policies, procedures and standards
- Environmental, health and safety requirements
- Shortages in specialised doctors and skilled personnel such as pharmacists, nurses and radiographers
- Innovation in information systems and security

#### Strategic focus area



#### Affected stakeholder groups

Government; patients; medical healthcare funders; employees; doctors and consultants



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## 6. Labour relations and employee retention

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**H**igh wage increases affect the affordability of healthcare, and the shortage of skilled employees affects the quality of care.

The following factors impact on all our operations:

- Competition for specialised and scarce skills and South African wage increases that are consistently higher than inflation
- Industrial action could impair the delivery of healthcare
- Talent management, succession planning, development and training

### Strategic focus areas



### Affected stakeholder groups

Employees; doctors and consultants

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## 7. Medical healthcare funders

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**M**edical healthcare funders in South Africa have the ability to directly influence our access to private, medically insured patients, influencing revenue and market share.

The following factors impact on medical healthcare funders:

- Preferred network agreements and funder-preferred products and services are significant, as medical healthcare funders reimburse 95% of the hospital division revenue in southern Africa
- The Group has significant exposure to Discovery Health and GEMS that make up approximately 53% of the hospital division turnover in southern Africa
- The consolidation activities of medical healthcare funders have resulted in increased bargaining power which could ultimately reduce the prices the Group can charge for services

### Strategic focus areas



### Affected stakeholder groups

Shareholders, investors and financiers; patients; medical healthcare funders

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## MATERIAL MATTERS CONTINUED

### Material matters prioritisation

All our material matters have the potential to impact our operations. The material matters were prioritised in terms of their likelihood and potential impact, and are plotted on the following heat map.





# STAKEHOLDER ENGAGEMENT

**O**ur effectiveness and sustainable operation are rooted in a social licence to operate and build positive relationships with the stakeholders involved in our value creation process.

## Stakeholder engagement objectives

Life Healthcare uses a formalised stakeholder framework to engage with stakeholders, and the board is kept abreast of any material stakeholder matters through the board social, ethics and transformation committee. Our communication mix uses the most effective communication channels available, including social media and other digital means.

Our five core values and the following objectives inform the Group's stakeholder engagement strategy:

- Position Life Healthcare as a diversified leader in local and international healthcare

- Manage the Group's reputation
- Build investor confidence in the Group
- Position Life Healthcare as the preferred hospital group for doctors, patients, employees and partners

## Our stakeholders and engagement methods

Life Healthcare employs a two-directional approach to stakeholder engagement. This approach ensures that engagements from us to our stakeholders (bottom-up) and from our stakeholders to ourselves (top-down) are considered in our stakeholder engagement and management.

Enabling

## Industry and regulatory bodies

- Primary interactions through HASA in southern Africa, NHS in Alliance Medical, National Association of Private Hospitals, NFZ and Lewiatan Confederation in Poland
- Engagement with regulatory bodies, such as the Care Quality Commission in the UK and Quality Monitoring Centre in Poland
- Regulatory inputs, litigation and stakeholder engagement on general health policy matters
- Interaction with professional associations such as Society of Radiographers in the UK

## Shareholders, investors and financiers

- Interaction with shareholders through interim and annual results, road shows, attending select investor conferences, ad hoc one-on-one meetings and engagements
- Telephonic and web-based engagements, emails, interim and integrated reports, and Stock Exchange News Service (SENS) announcements

## Government

- Liaising with government health departments directly and through industry forums, for example HASA in South Africa
- Ongoing interaction with government on regulatory direction
- Participation in government forums

## Input into value creation

### Doctors and consultants

- Consultative forums and hospital-based medical advisory committees in various territories – this includes engagement with doctors in quality drives, cost of sales projects and development of clinical pathways
- Quarterly online newsletters and training initiatives, including clinical support/supervision
- Hospital managers facilitate open communication with doctors on a daily basis
- Doctor and specialists surveys

### Employees

- Direct employee engagement through meetings, consultative forums, recognition and rewards programmes and engagement surveys
- Employee-specific interim and annual results communications
- Monthly employee tabloid and weekly online news updates
- Comprehensive induction programmes

### Suppliers

- Reviewing and renewing contracts and procurement initiatives
- Meetings and negotiations with strategic supply partners
- Life Healthcare's code of conduct and code of ethics are made available to all suppliers

## Value creation output

### Patients

- Patient feedback through paper-based comment cards, various measurement tools such as patient experience management (PXM) and post-discharge surveys – this includes emergency unit and rehabilitation patients. In Max Healthcare for example, patient satisfaction scores are obtained through a third party
- Corporate monitoring of complaints and actions taken through the customer relationship management system in all of our territories
- Customer services communication channel
- Digital interaction through Life Healthcare's *contact us* website feature and social media
- Print media including *Life magazine*, published for patients

### Government as a customer

- Ongoing executive level interactions for key contracts in southern Africa
- Direct interaction with public healthcare providers, for example NHS in the UK
- Ongoing engagement relating to various contracts in Poland

### Medical healthcare funders

- Ongoing interaction and feedback regarding use, pricing, contracts, preferred network agreements, clinical and quality excellence, and patient satisfaction scores



## STAKEHOLDER ENGAGEMENT CONTINUED

**T**he Group analysed the material concerns and expectations of our stakeholders and categorised them into 10 top themes.

### Stakeholder expectations

#### **Provision of professional, quality care and a positive hospital experience**

The Group created a clinical governance, quality and safety board committee to oversee all matters related to quality care. These include Group-wide monitoring, correction, improvement and alignment. The clinical directorate coordinates patient care to maintain international standards of medical care, and guides doctors and clinical employees in matters related to clinical services. In South Africa, PXM and response through the CARE programme support the development and maintenance of a positive patient experience.

#### **Access to multi-disciplinary health services and preferred network agreements**

Life Healthcare has negotiated network and service agreements with medical healthcare funders in South Africa to provide care to patients in a manner that supports all stakeholders.

#### **Execution of an appropriate strategy to steer Group performance**

Life Healthcare has revised its strategy to ensure alignment to our five-year objectives. Management will apply and monitor this strategy through operational direction and performance against key performance indicators.

#### **Provision of cost effective care in an efficient manner**

The Group reviewed all South African procurement activities and, where possible, enhanced these to reduce the cost of sales component of cost effective care. Synergies with other territories are being investigated. Operational improvements, such as electricity cost saving, further aid this. We are further aligning with doctors, medical healthcare funders and, where relevant, government, to improve cost of care for patients.

#### **Operating in a fair, respectful and ethical manner within appropriate corporate and clinical governance frameworks**

The Group has a board social, ethics and transformation committee to ensure that the Group's ethics are effectively managed. Details of ethical operation are encapsulated in our code of ethics. This is the starting point from which employees draw guidance for behaviour within the Group. The clinical governance, quality and safety board committee is responsible for ensuring appropriate actions for all clinical governance-related aspects of operation.



**Employee value proposition, including competitive remuneration, reward and recognition, personal development, and health and safety**

The Group regularly assesses market factors, and our overall strategy is to offer employees competitive market-related remuneration in addition to various benefits. A range of employee health and wellness programmes support our efforts, while the Life Achiever Awards in South Africa facilitate peer recognition. Training and development programmes are offered at all employee levels. Health and safety training is a business essential that is first applied during induction processes for new employees.

**Transparent and timeous communication**

The Group uses a stakeholder engagement strategy and various communication channels to ensure appropriate and timely interaction in a transparent manner.

**Compliance with laws and regulations**

Our Group Company Secretary and decentralised legal teams support the board in ensuring that all actions and approaches are within the confines of the laws and regulations of the territories in which we operate.

**Assistance in addressing critical skills shortages in the industry**

Life Healthcare operates the Life College of Learning, a registered higher education institution in South Africa, that provides training to meet the business's needs. Engagement with government is ongoing to develop a partnered training model for doctors, nurses and other specialised skills.

**Efficient interaction with case management, billing and payment and control of fraud**

The digital e-billing project introduced a MultiTouch solution to our South African wards. This facilitates paperless, real-time functionality necessary for recording consumption of ward stock, equipment, gases and fees. Our case management process promotes efficiency through care coordination between the patient, hospital, medical healthcare funder and doctor. The Group has adopted stringent internal protocols and controls to manage healthcare fraud, this includes patient validation at admission, transparent reporting during case management, access control with segregation of duties, and imposed governance during the billing process.

# RISKS AND OPPORTUNITIES

**H**ealthcare providers face numerous emerging opportunities and challenges. Appropriately managing these risks and capitalising on opportunities support a sustainable and profitable business.

## Risk management process

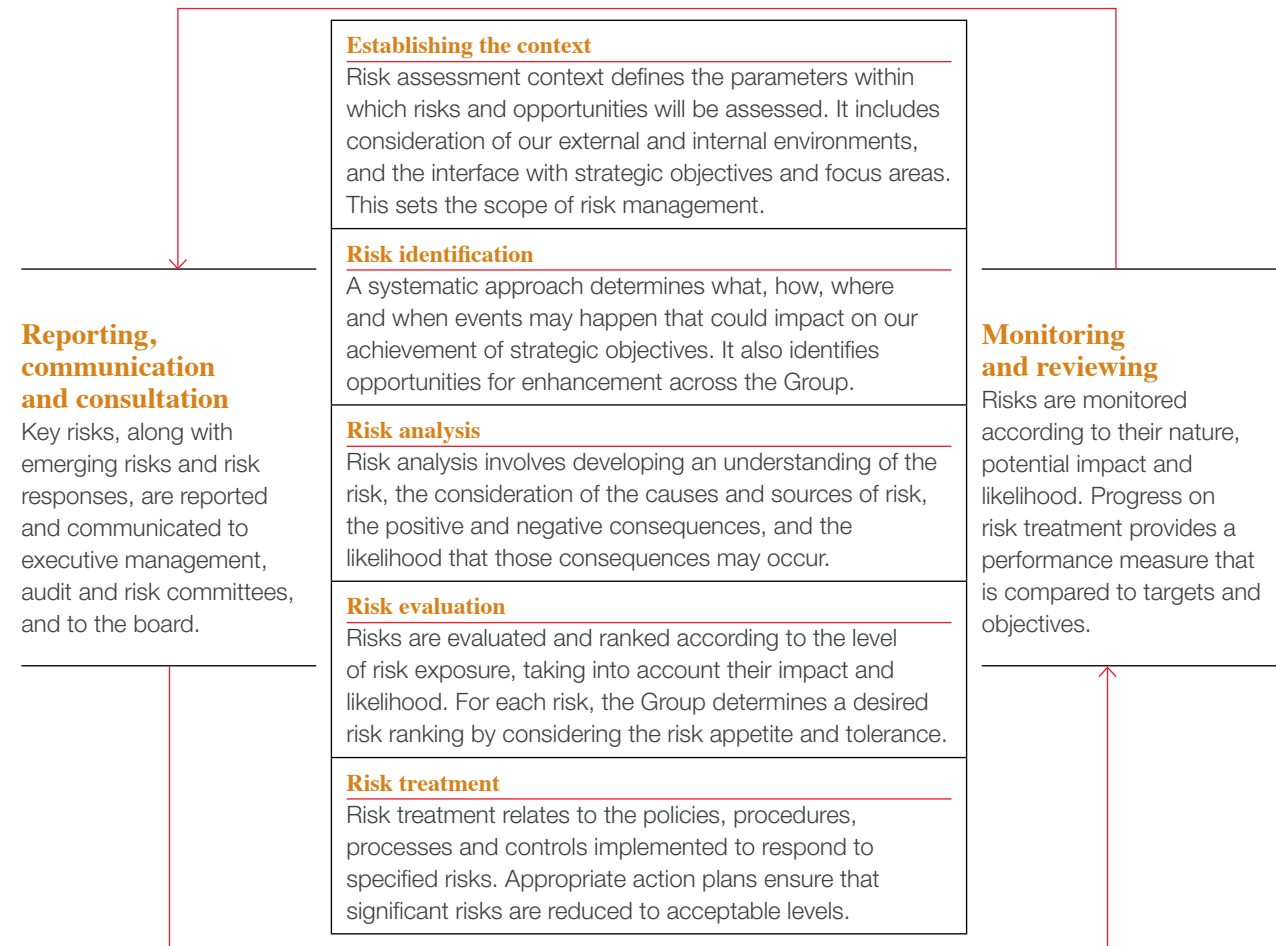
Our board, supported by the risk committee, is ultimately responsible for the governance of risk. The committee ensures that an effective risk policy and plan for risk management are in place to enhance our ability to achieve strategic objectives. Line management and employees are responsible for implementing risk management policies and processes.

An enterprise risk management strategy and framework ensure that risks and opportunities are appropriately identified, assessed and managed. They take King IV into account and are aligned to ISO 31000 international

standards on risk management. The risk management processes are integral components of business processes and align with our core values and strategic focus areas.

Embedding risk management processes in day-to-day operations ensures that the Group is better equipped to identify events affecting our objectives and to manage risks consistently in line with our strategy. The Group Risk Manager engages with key executives and senior management across all four territories to identify risks. Group, southern Africa, Alliance Medical and Scanned risks are incorporated into the Group risk register. Max Healthcare's risk report is submitted to the Group annually.

## Enterprise risk management process



In line with our combined assurance process, the risk committee receives periodic, independent assurance on the effectiveness of risk management from internal audit. The board and risk committee confirm that they are satisfied that there are adequate, ongoing risk management processes in place to provide reasonable assurance that key risks and opportunities are identified, evaluated and managed.

### 2017 focus areas

The Group focused on the following related to risk:

- The development of a compliance framework throughout the Group;
- Finalising the enterprise risk management strategy and framework for the southern Africa business;
- IT security strategy and cyber risk;
- Development of risk reporting protocols to incorporate emerging risk reporting and a risk management dashboard with status indicators;
- Understanding the risks relating to the Alliance Medical Group; and
- Defining appropriate levels of risk appetite and tolerances within each risk across the Group.

### 2018 focus areas

Life Healthcare will apply focus to the following areas regarding risk management:

- Further develop the enterprise risk management process to apply across the Group;
- Align and integrate the risk management strategy and framework across the Group;
- Improve our combined assurance approach; and
- Monitor the rollout of the IT security strategy and the compliance framework throughout the Group.

### Key risks analysis

The overall risk profile is summarised into the key risks that are outlined below. These risks are rigorously reviewed through internal operational mechanisms. This section should be read in conjunction with the material matters section on page 32. The table further highlights how assurance is leveraged through our combined assurance process (page 1).

#### Description of the risk, its context and related material matters

##### Pressure from medical healthcare funders on networks, pricing and activities (southern Africa and Alliance Medical specific)

Ranking: 1 (2016: 2)

In southern Africa, Life Healthcare is under continuous pricing pressure from medical healthcare funders seeking to manage the overall cost of healthcare. This is primarily driven by economic pressures that have led to a decrease in the number of medically insured lives. Individuals are buying down on health plans and are finding it difficult to fund co-payments in current economic conditions.

The increase in restricted option networks and our ability to participate in the preferred network agreements remain risks. Competition for network allocations with other healthcare providers is increasing.

Alliance Medical operates across a number of markets which provide a portfolio of healthcare commissioners. As with all northern European health economies, funding challenges are prevalent. Alliance Medical also has a mix of public and private income streams.

#### A summary of the risk mitigation

An appropriate pricing strategy with a focus on input costs is in place. The Group focuses on maintaining good relations with medical healthcare funders, particularly top tier and network partners, and engages with them on their specific issues and concerns. Our extensive geographic footprint in southern Africa is an advantage. We have a model in place with certain medical healthcare funders to minimise costs and improve tariffs.

Another priority is the recruiting of doctors who service restricted network patients. We have focused interventions with doctors around clinical outcome data and efficiency. These interventions are material because additional patient volumes, at a decreased operational cost, with enhanced efficiency, will increase our competitiveness.

#### Related material matters

- Cost of care
- Quality of care standards
- Medical healthcare funders

#### Combined assurance process

- |             |   |
|-------------|---|
| First line  | ✓ |
| Second line | ✓ |
| Third line  | ✓ |

## RISKS AND OPPORTUNITIES CONTINUED

Description of the risk, its context and related material matters	A summary of the risk mitigation	
<p><b>Competition Commission's Healthcare Market Inquiry (South Africa specific)</b> <i>Ranking: 2 (2016: -)</i></p> <p>The Competition Commission is conducting a market inquiry into the private healthcare sector. The investigation encompasses the state, nature and form of competition in the private healthcare sector. The outcome of the inquiry could result in adverse changes in legislation which could impact the Group's performance or licence to operate.</p>	<p>We have a multi-disciplinary task team that formulates strategies and responses to effectively communicate our position on the various issues, which we believe should positively influence the potential outcomes of the HMI. Further engagements continue during the inquiry process, and doctors are kept informed of its status.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>• Onerous and increasing regulations</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓ Second line ✓ Third line</p>
<p><b>Regulatory compliance</b> <i>Ranking: 3 (2016: 6)</i></p> <p>The healthcare industry in South Africa is subject to a number of national and provincial regulations, including the Labour Relations Act, B-BBEE Act, PoPI, the National Health Act (including the amendment dealing with core standards) and a large number of environmental laws and regulations.</p> <p>The healthcare industry worldwide is subject to a number of regulations. The Group is required to comply with applicable laws and regulations in the four territories in which we operate.</p> <p>The NHI White Paper was gazetted on 28 June 2017. The next phase extends from 2017 to 2022, which will focus on the development of the National Health legislation and amendments to other legislation.</p>	<p>The Group proactively monitors and, where possible, provides input for any new proposed legislation, in the interest of all stakeholders. This includes Group and industry research and analysis to support any debate regarding proposed legislative initiatives. Legislative requirements are addressed through training at an appropriate level. For example, occupational health and safety training in compliance with the Occupational Health and Safety Act, 85 of 1993, (OHSA).</p> <p>The Group supports the fundamental objectives of universal healthcare through the NHI, which is to extend appropriate, affordable healthcare to all South Africans. Further opportunities will be created to expand our service offering to people not currently catered for by the private healthcare sector.</p>	<p><i>Related material matters</i></p> <ul style="list-style-type: none"> <li>• Cost of care</li> <li>• Onerous and increasing regulations</li> <li>• Quality of care standards</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓ Second line ✓ Third line ✓</p>



Life Healthcare actively responds to existing, and future material risks and opportunities to ensure sustainable operations.

Description of the risk, its context and related material matters	A summary of the risk mitigation	
<p><b>Skilled personnel shortages</b> <i>Ranking: 4 (2016: 7)</i></p> <hr/> <p>South Africa has a general shortage of pharmacists, specialised and registered nurses, ICU nurses and other healthcare professionals. This impacts the Group's service delivery and ability to grow. There is also a scarcity of skilled information management resources. Alliance Medical works proactively across its markets to attract a limited supply of qualified clinical staff, while Poland's shortage of qualified personnel is expected to increase.</p>	<p>Employee share schemes exist and improved remuneration and maternity benefits are in place to attract and retain employees.</p> <p>Various indicators, such as employee turnover, are monitored. Response strategies are formulated to correct any unacceptable trends that emerge.</p> <p>Nurse training for southern Africa (through the Life College of Learning) and training of ICU nurses are in place. Scanmed trains residents and medical academy students (doctors and nurses), provides financing for specialised nurse courses and creates favourable working conditions.</p> <p>Employees in all levels of management are developed. We have a standard approach to graduate recruitment which includes attending career fairs at universities and promoting awareness about nursing as a career.</p>	<p><i>Related material matters</i></p> <ul style="list-style-type: none"> <li>• Specialised skills shortages</li> <li>• Labour relations and employee retention</li> </ul> <p><i>Combined assurance process</i></p> <p>First line <span style="float: right;">✓</span></p> <p>Second line <span style="float: right;">✓</span></p> <p>Third line</p>
<p><b>Management succession planning</b> <i>Ranking: 5 (2016: -)</i></p> <hr/> <p>Due to the highly specialised nature of the healthcare industry, certain management employees and executives have a significant impact on the Group's performance as a result of their years of experience within the Group.</p> <p>Losing these key employees over a short time frame could hamper performance until a suitable successor is placed and obtains the necessary experience.</p>	<p>We have performed a Group executive assessment gap analysis which was presented to the remuneration and human resources committee in July 2017. This formed the basis for the executive succession plan that was reviewed at the remuneration and human resources committee in September 2017.</p> <p>In southern Africa a national talent review identified successors, who demonstrate the strongest potential (assessed through an external party), for 11% of senior management.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>• Labour relations and employee retention</li> </ul> <p><i>Combined assurance process</i></p> <p>First line <span style="float: right;">✓</span></p> <p>Second line <span style="float: right;">✓</span></p> <p>Third line <span style="float: right;">✓</span></p>



## RISKS AND OPPORTUNITIES CONTINUED

Description of the risk, its context and related material matters	A summary of the risk mitigation	Related material matter
<p><b>Doctor shortages</b> <i>Ranking: 6 (2016: 1)</i></p> <p>There is a general shortage of specialist doctors in the South African healthcare market, which may impact the Group's growth prospects. The following disciplines are particularly challenging:</p> <ul style="list-style-type: none"> <li>• Neurosurgeons</li> <li>• Cardiologists</li> <li>• Obstetricians</li> <li>• Neurologists</li> </ul> <p>Poland is also experiencing a growing shortage of doctors.</p>	<p>We have a recruitment and retention strategy in place which includes:</p> <ul style="list-style-type: none"> <li>• bursaries and sponsorship programmes and facilitation of continuous professional development training to specialists;</li> <li>• a doctor partnership model and support policy;</li> <li>• engaging with doctors through different media platforms, medical conferences and open days for doctors in their final year of training (this is also done in Poland);</li> <li>• regional clinical managers appointed to enhance doctor relationships and implement quality improvement initiatives;</li> <li>• improving infrastructure and equipment at facilities; and</li> <li>• enabling reduced professional indemnity premiums through enhanced clinical measures which improve patient safety and result in reduced medical malpractice claims – an example is the BetterObs programme.</li> </ul>	<p>Specialised skills shortages</p> <p><i>Combined assurance process</i></p> <p>First line ✓</p> <p>Second line ✓</p> <p>Third line</p>
<p><b>B-BBEE (southern Africa specific)</b> <i>Ranking: 7 (2016: 6<sup>1</sup>)</i></p> <p>The Group's current B-BBEE status is Level 7, based on internal assessments which is currently being verified externally. This has an adverse impact on the South African healthcare services division which is driven by tenders, particularly in the mining sector.</p> <p>It may also impact the Group's ability to secure future operating licences for new facilities in South Africa.</p>	<p>We established a transformation forum to monitor the Group's B-BBEE status with oversight by the social, ethics and transformation committee.</p> <p>The Life Healthcare Nursing Education Trust was registered in June 2017, following which, a new verification certificate will be obtained.</p>	<p>Government relationships</p> <p>Onerous and increasing regulations</p> <p><i>Combined assurance process</i></p> <p>First line ✓</p> <p>Second line ✓</p> <p>Third line ✓</p>

<sup>1</sup> B-BBEE formed part of the regulatory compliance risk in 2016.

Description of the risk, its context and related material matters	A summary of the risk mitigation	
<p><b>Information security and cybercrime</b> <i>Ranking: 8 (2016: 8)</i></p> <hr/> <p>Due to the widespread use of computers and network-enabled medical devices, and the increase of cybersecurity threats globally, there is a privacy and cybersecurity risk for the Group. This includes the threat of Group data and information being compromised.</p>	<p>Cybercrime has received increased attention, reflected in the expanded terms of reference for the board.</p> <p>We have an information management security strategy in place to improve security, manage residual risk and implement further measures to protect the intellectual property of the Group from hacking and other illegal electronic activities. This includes advanced email protection, firewalls, end-point protection, cybersecurity enhancements and protection of personal information. The Group increased expenditure on IT to support adequate security improvements.</p> <p>We perform annual internal and external security assessments, to determine and prioritise the implementation of the required security controls and countermeasures.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>• Cost of care</li> <li>• Onerous and increasing regulations</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓</p> <p>Second line ✓</p> <p>Third line ✓</p>
<p><b>Managed admission initiatives from medical healthcare funders (southern Africa specific)</b> <i>Ranking: 9 (2016: -)</i></p> <hr/> <p>Medical healthcare funders are clamping down on inappropriate admissions and multi-referrals, and have initiatives in place to reduce admissions into hospital facilities. These include applying additional admission protocols which result in limited admission and claim rejections.</p>	<p>The Group focuses on maintaining good relations with medical healthcare funders, and engages with them on their specific issues and concerns. We have focused interventions with doctors around inappropriate admissions. The Group is also working closely with prominent medical healthcare funders on various initiatives in this regard.</p> <p>Phase one of the doctor quality and efficiency reporting programme concluded towards the middle of the year and a range of hospitals and doctors participated. The second phase is underway and provides reports to 1 200 clinicians.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>• Medical healthcare funders</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓</p> <p>Second line ✓</p> <p>Third line</p>

## RISKS AND OPPORTUNITIES CONTINUED

Description of the risk, its context and related material matters	A summary of the risk mitigation	
<p><b>Medical malpractice, legal disputes and reputational risk (southern Africa specific)</b> <i>Ranking: 10 (2016: 9)</i></p> <p>Adverse events in performance of nursing services and/or doctor services could affect patients. These events or legal disputes arising out of medical malpractice claims could affect the Group's reputation and relationships with key stakeholders.</p>	<p>A Quality Management System (QMS) is employed to ensure quality healthcare is provided and that a culture of error prevention and continuous improvement is maintained. Insurance is in place for medical malpractice claims, and doctors are required to obtain doctor medical malpractice insurance.</p> <p>An analysis detailing trends in clinical risks is performed and clinical interventions are developed to mitigate the clinical risk going forward. A medical legal forum was introduced where trends of incidents and adverse events are analysed. National quality review meetings are held quarterly where new initiatives and the progress of existing initiatives are discussed.</p> <p>A media strategy is in place for dealing with complaints raised through the media.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>Quality of care standards</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓ Second line ✓ Third line ✓</p>
<p><b>IT disaster recovery and IT implementation projects</b> <i>Ranking: 11 (2016: 8)</i></p> <p>There is a risk of failure to maintain reliable information systems for business operations in the event of an IT disaster.</p> <p>There is an implementation risk on information management projects (Impilo e-billing project, SAP, SUN, etc.)</p>	<p>The IT departments regularly perform risk assessments and carries out disaster recovery tests annually. Logical and physical IT security controls are in place, and a cybersecurity governance framework is being implemented. We maintain full disaster recovery capability aligned to business agreed tolerances. We perform simulated recovery tests annually to ensure recovery targets are met.</p> <p>Risk registers are kept for all projects and a response plan is in place for each project risk identified. Rigorous project management methodology is followed with strong business sponsor leadership.</p>	<p><i>Related material matter</i></p> <ul style="list-style-type: none"> <li>Cost of care</li> </ul> <p><i>Combined assurance process</i></p> <p>First line ✓ Second line ✓ Third line ✓</p>

### Key year-on-year movements in key risks

The following 2016 key risks are not included in the top risks:

- International growth (2016: rank 3): As an internationally diversified healthcare provider, the acquisition of Alliance Medical has adequately addressed this risk.
- Local growth (2016: rank 4): The Group continues to grow its complementary services in line with growth in oncology, mental health, renal dialysis, acute rehabilitation and occupational health services.
- Government licence approvals (2016: rank 5): Life Healthcare experienced reduced difficulty in the licensing approval process.

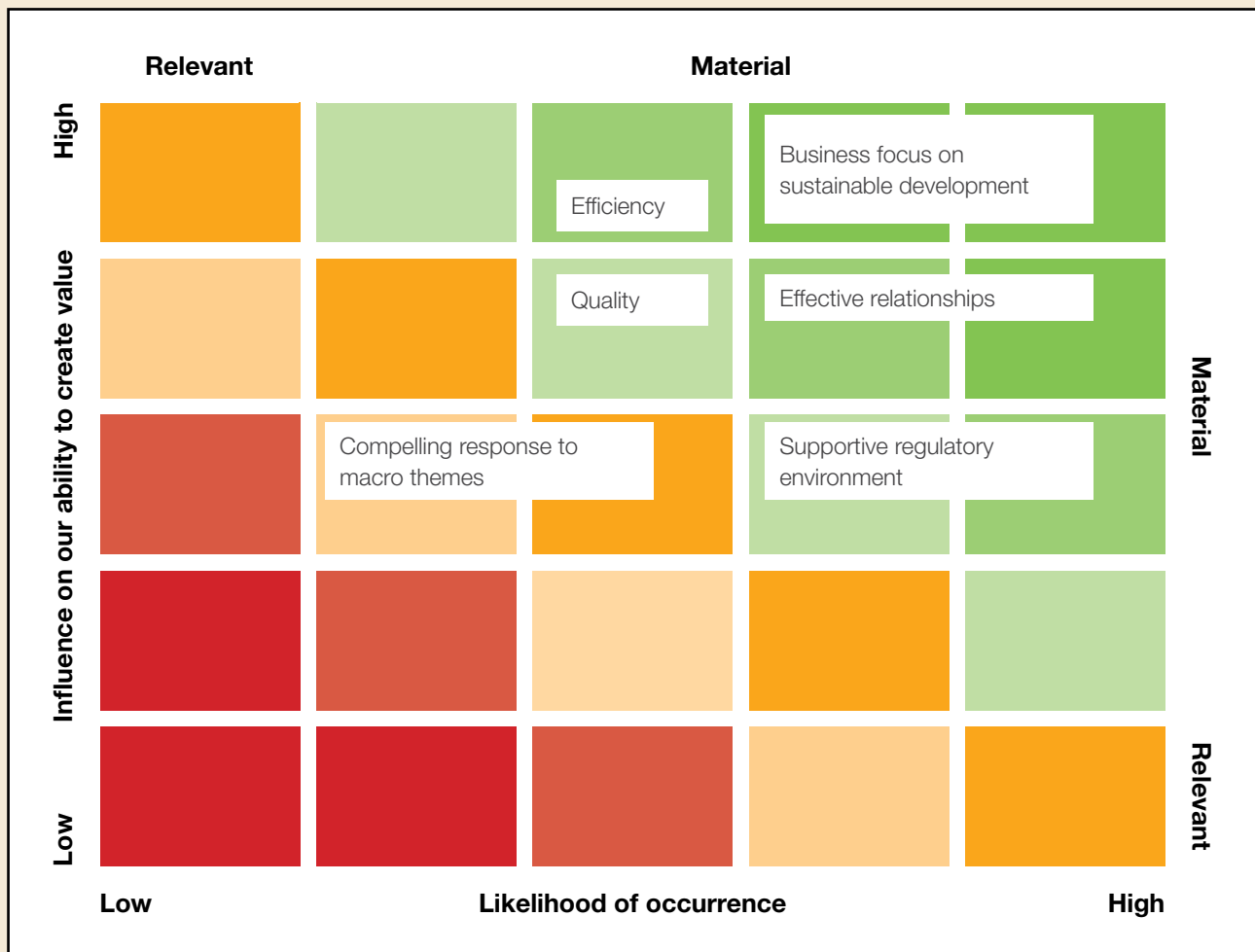
## Opportunities register

Identifying and managing opportunities is part of the risk management process. The Group identifies opportunities from each risk and creates value from utilising them.

Our opportunities are classified under the following six key themes:

- Business focus on sustainable development: Leverage stakeholder relationships to positively position the Group in the industry and create a pipeline of skilled expertise from which to draw
- Supportive regulatory environment: Become a preferred provider for NHI and leverage positive aspects of HMI exposure
- Quality: Increase the overall quality of care at all points in the Life Healthcare value creation chain to improve patient outcomes and provide an opportunity to reduce malpractice claims
- Efficiency: Minimise costs and improve efficiencies by streamlining processes and removing activities that do not improve quality or add value for patients, doctors or employees
- Effective relationships: Partner with universities and colleges to develop skilled prospective employees, promote ethical behaviour and engage with medical healthcare funders to accommodate their needs where possible
- Compelling response to macro themes: Leverage HMI exposure to enhance the image of the Group and become a preferred provider for the NHI

The opportunities heatmap below indicates how these identified opportunities may impact on our creation of value, and their likelihood of occurrence.





# STRATEGIC PERFORMANCE REVIEW

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# GROUP CHIEF FINANCIAL OFFICER'S REVIEW



**T**he Group increased revenue to R20.8 billion (2016: R16.4 billion) and expanded our footprint into Europe through the acquisition of Alliance Medical.

**Pieter van der Westhuizen**  
*Group Chief Financial Officer*



One of Life Healthcare's strategic objectives is to accelerate the transition from a South African focused acute care group to an international, diversified healthcare provider. Life Healthcare's growth strategy has been focused on expanding its complementary services within the South African market while increasing its international exposure.

In line with this strategy, Life Healthcare completed the acquisition of Alliance Medical in November 2016. The Group acquired Alliance Medical for an enterprise value of around GBP780 million (R13.9 billion). The acquisition was initially funded through ZAR and GBP debt bridge facilities, which have subsequently been partially repaid through the successful completion of the rights offer, and the balance is being refinanced via term debt.

The Group's earnings have been impacted by the one-off items related to the Alliance Medical acquisition and the impairment of the investment in Poland with headline earnings per share down 56.8%



Indicator	2017	2016	Year-on-year trend
<b>Growth</b>			
Net debt: normalised EBITDA (ratio), debt covenant is <3.5 (2016: 2.75)	<b>2.55</b>	1.67	↑
Interest cover (ratio), debt covenant is >5.0	<b>4.22<sup>1</sup></b>	8.24	↓
Capital expenditure as percentage of revenue (%)	<b>8.0</b>	6.2	↑
Maintenance capital expenditure as percentage of revenue (%)	<b>4.1</b>	2.2	↑
Growth capital expenditure as percentage of revenue (%)	<b>3.9</b>	4.0	↓
Normalised EPS (cps)	<b>93.9</b>	169.4 <sup>2</sup>	↓
Normalised EPS excluding amortisation (cps)	<b>120.6</b>	179.0 <sup>2</sup>	↓
HEPS (cps)	<b>77.4</b>	179.1 <sup>2</sup>	↓
EBIT	<b>3 591</b>	3 637	↓
Free cash flow	<b>1 283</b>	1 655	↓
<b>Efficiency</b>			
Cash generated from operations as percentage of EBITDA, target is >95%	<b>93.2</b>	93.3	↓
Normalised EBITDA margin (%)	<b>24.0</b>	26.3	↓

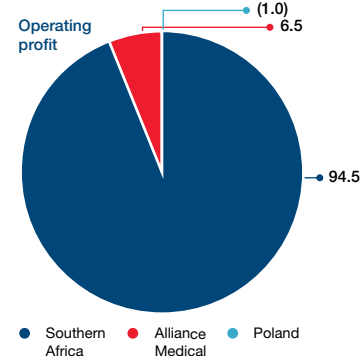
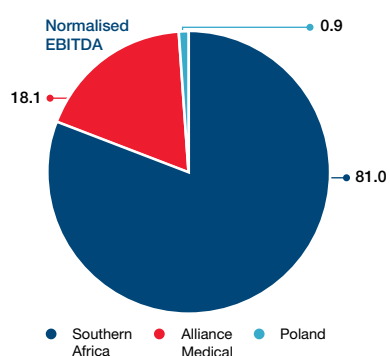
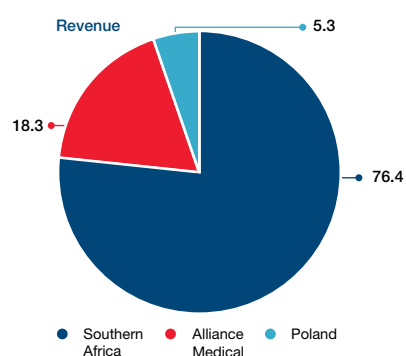


## Statement of comprehensive income

### Summarised Group statement of comprehensive income

Description	2017 R'm	2016 R'm	Change %
Revenue	<b>20 797</b>	16 404	26.8
Normalised EBITDA <sup>3</sup>	<b>5 001</b>	4 314	15.9
EBITA	<b>4 030</b>	3 784	6.5
EBIT	<b>3 620</b>	3 660	(1.1)
One-off costs	<b>(442)</b>	(302)	46.4
Net finance costs	<b>(1 137)</b>	(500)	127.4
Share of associate's net (loss)/profit after tax	<b>(15)</b>	8	
Profit for the year	<b>1 119</b>	1 970	(43.2)
<b>Profit attributable to ordinary equity holders</b>	<b>814</b>	1 616	(49.6)

#### Territory contributions (%)



<sup>1</sup> Waiver consent letters were received from the relevant banks accepting the breach of covenants for a period of 13 months from the Alliance Medical acquisition date.

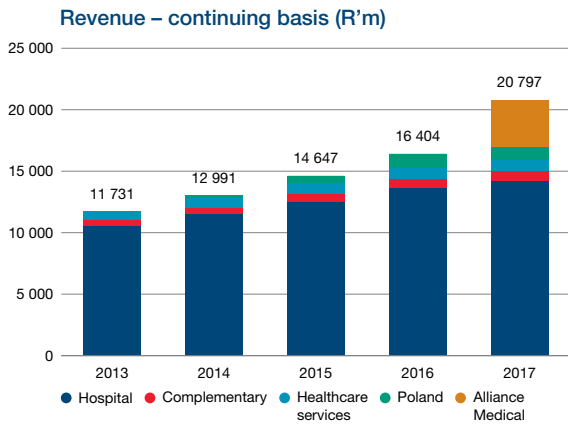
<sup>2</sup> Prior year has been amended as a result of a change to the weighted average number of shares, which has been increased due to the rights offer and the related bonus element within the rights offer, in accordance with IFRS.

<sup>3</sup> Life Healthcare defines normalised EBITDA as operating profit before depreciation on property, plant and equipment, amortisation of intangible assets, and non-trading related costs and income.

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

### Revenue and EBITDA

Our increased revenue was supported by a good local performance and our acquisition of Alliance Medical, and we intend to grow this contribution to aid revenue diversification.



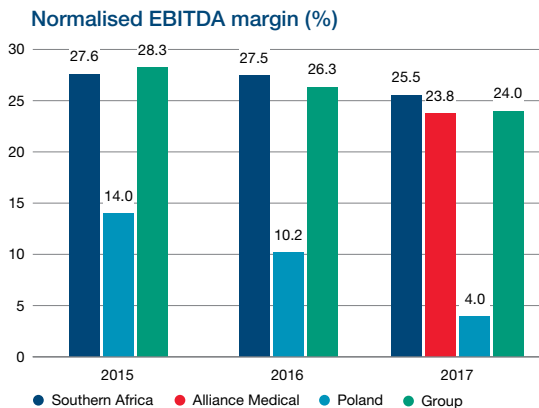
Group revenue increased by 26.8% to R20 797 million (2016: R16 404 million) consisting mainly of a 4.3% increase in southern African revenue to R15 890 million (2016: R15 230 million); R3 812 million new revenue from Alliance Medical and R1 095 million (2016: R1 174 million) revenue contribution from Poland.

Revenue from the southern African operations was driven by a higher revenue per paid patient day (PPD) of 6.3%, made up of a 6.1% tariff increase and a 0.2% positive case mix impact, partially offset by a 1.7% decrease in PPDs. The PPD volume decline of 1.0% reported in the first half of the year was impacted by Easter falling in the second half of the 2017 year, as opposed to the first half of 2016. The decline of PPDs as at the end of February 2017 and April 2017 was 2.7% with the region impacted the most being KwaZulu-Natal. Post-Easter there has been an improvement in underlying activities, resulting in a full-year decline of 1.7%. Overall lower activity volumes have been due to limited or no growth in the private healthcare market, macroeconomic factors and intensified case management efforts by medical healthcare funders. Within this difficult trading environment, the Group is still experiencing good growth in its complementary services division with revenue growing by 18.5%. The overall weighted occupancy for the year decreased to 70.0% (2016: 72.5%). EBITDA margins for the period declined to 25.5% (2016: 27.5%), primarily as a result of the decrease in activities and changes in case mix.

Alliance Medical performed well against their previous 12 months with revenue increasing by 12.0% to R4 419 million and normalised EBITDA increasing by 11.3% to R1 168 million on a constant currency basis. In the UK, the business continues to benefit from the growth in PET-CT volumes but is experiencing increased competition on the mobile diagnostic business as more capacity is added to the market. The operations in Italy and Ireland performed according to expectations and northern Europe showed good growth on the back of the acquisition of the Life Radiopharma Group (previously Eckert & Ziegler) for R189 million (EUR13 million) in May 2017. This acquisition extends Alliance Medical's molecular imaging presence in northern Europe and supplements its PET-CT scanning services.

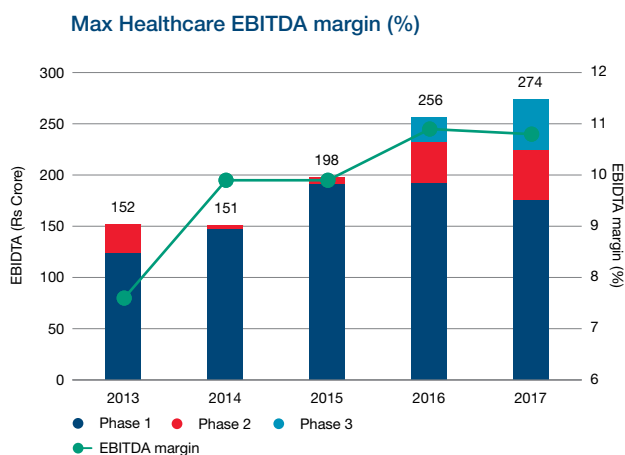
Scanmed's revenue for the year to 30 September 2017 was R1 095 million (2016: R1 174 million). Normalised EBITDA is significantly below last year with the EBITDA margin reducing to 4.0% (2016: 10.2%) The EBITDA margin excluding one-off items is 7.9%. This is primarily due to the impact of the reduction in cardiology tariffs as promulgated in Poland effective 1 July 2016 (-17%), further cardiology tariff reductions from 1 January 2017 (-11%) in a segment that makes up 45% of Scanmed's NFZ revenue, and prior year debtor impairments to the value of R43 million. Several turnaround activities are taking place in the business, including major cost savings (such as administrative headcount and third parties' cost reduction), integration and improvement in operational efficiency. Completion of the system integration with the Life Healthcare process is planned for mid 2018. Scanmed has successfully secured new four-year NFZ contracts, at better pricing, covering 85% of the business. We expect to complete contracts for the balance of the business in the first half of 2018.

Following the acquisition of Alliance Medical, the Group's amortisation charge increased to R439 million (2016: R147 million) as a result of the R3.5 billion (GBP193 million) fair value uplift on intangible assets, resulting in earnings before interest and tax (EBIT) decreasing by 1.1%.



### Associate profit

Max Healthcare reported revenue growth of 8.0% and EBITDA growth of 7.0% for the 12 months ended 30 September 2017. Max Healthcare was impacted by the demonetisation of the currency towards the end of 2016 and the introduction of a number of regulatory changes such as stent and knee implant price caps. To mitigate the regulatory impact, a number of cost efficiency initiatives have been identified totalling Rs93 Cr of which Rs34 Cr was realised in the last six months. The Group, with Max India, each acquired an equal share of the IFC stake at Rs105 per share equating to R428 million. The Group's shareholding in Max Healthcare is now 49.7% and maintains the equal shareholding status with Max India, thus protecting our shareholder rights. The earnings of this business are impacted by the funding cost, costs of acquisition and development incurred in respect of the business acquisitions. While these operations continue to ramp up, the earnings will be low.



### Earnings

Earnings decreased by 49.6% to R814 million (2016: R1 616 million). The Group's earnings have been impacted by the one-off items related to the Alliance Medical acquisition, which includes transaction costs of R267 million, and the further impairment of the investment in Poland of R167 million resulting from the further tariff reductions in January 2017.

The net finance costs include R778 million of funding costs for acquisitions, of which R427 million is non-recurring due to the settlement of a portion of the bridge funding via the rights offer. Finance costs from additional debt raised during the year amounts to approximately R190 million.

#### Southern Africa's alternative reimbursement model

Life Healthcare receives approximately 65% of our acute hospitalisation through an alternative reimbursement model (ARM). This includes fixed fees and per diems.

**Fixed fees:** This is a flat rate charged for a course of treatment, usually charged for procedures where the expected course of treatment is highly predictable (e.g. removal of tonsils). In a fixed fee tariff, Life Healthcare bears the risk of cost overruns related to treatment, including the level of care, length of stay (LOS), quantity of pharmaceuticals and surgical supplies utilised, and the price of surgical supplies for the procedure. Life Healthcare is not exposed to price risks regarding the cost of pharmaceuticals as this is governed by the single exit price (SEP) regulations.

**Per diems:** This is a daily rate charged for facilities used. Life Healthcare is exposed to the risks of specific costs related to treatment, including the quantity of pharmaceuticals utilised, and the price and quantity of surgical supplies used. Life Healthcare has no risk on the LOS or the price of pharmaceuticals governed by the SEP regulations.

Effective analysis and reporting, coupled with 14 years of experience, ensures that all of our reimbursement contracts are managed appropriately throughout the business, and enable us to take advantage of opportunities offered by these arrangements. The ARM continues to aid effective pricing that enables us to share savings with medical healthcare funders.

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

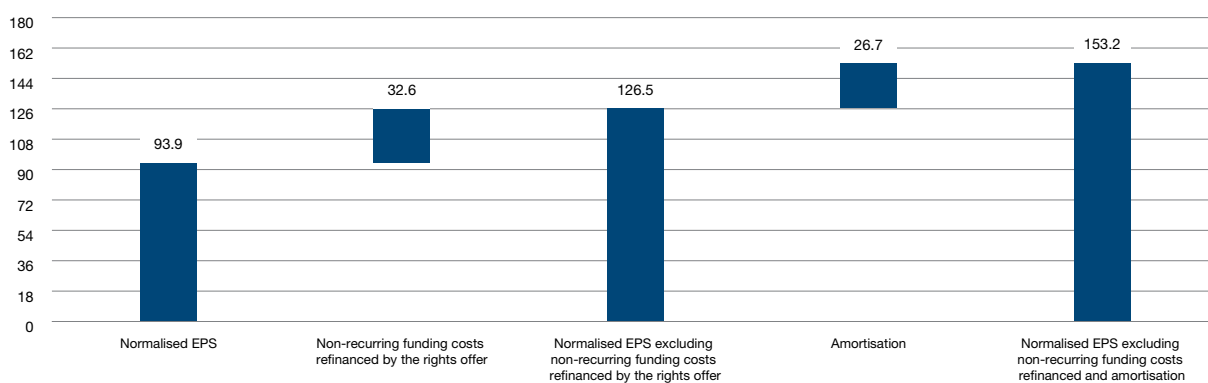
### Earnings per share (EPS)

Headline earnings per share (HEPS) decreased by 56.8% to 77.4 cps (2016: 179.1 cps). Earnings per share on a normalised basis, which excludes non-trading-related items, decreased by 44.6% to 93.9 cps (2016: 169.4 cps).

The earnings per share and headline earnings per share for the year ended 30 September 2016, have been amended as a result of a change to the weighted average number of shares, which has been increased due to the rights offer and the related bonus element within the rights offer, in accordance with IFRS.

Cents	2017	2016	% Change
<b>EPS as previously reported</b>	<b>62.2</b>	154.9	
Rights offer bonus element	–	(10.8)	
<b>EPS</b>	<b>62.2</b>	144.1	(56.8)
Impairment of investment	<b>12.8</b>	33.0	
(Profit)/loss on remeasuring previously held interest in associate	<b>(0.4)</b>	2.1	
Loss/(profit) on disposal of property, plant and equipment	<b>2.8</b>	(0.1)	
<b>HEPS</b>	<b>77.4</b>	179.1	(56.8)
Contingent consideration released	<b>(3.3)</b>	(9.7)	
Transaction costs	<b>20.4</b>	1.1	
Other	<b>(0.6)</b>	(1.1)	
<b>Normalised EPS</b>	<b>93.9</b>	169.4	(44.6)
Southern Africa	<b>149.7</b>	193.4	(22.6)
Poland and India	<b>(6.0)</b>	(0.9)	(>100)
Alliance Medical	<b>9.6</b>	–	
Funding costs for international acquisitions	<b>(59.4)</b>	(23.1)	
<b>Normalised EPS (excluding non-recurring funding costs refinanced by the rights offer)</b>	<b>126.5</b>	169.4	(25.3)
<b>Normalised EPS (excluding amortisation)</b>	<b>120.6</b>	179.0	(32.6)

### 30 September 2017 (cents)



## Financial position

Net debt to normalised EBITDA as at 30 September 2017 was 2.55 times (30 September 2016: 1.67 times). The banks covenants for net debt to EBITDA is 3.5 times (2016: 2.75 times). The increase in net debt is primarily due to the impact of the acquisition of Alliance Medical Group that was partially funded via debt.

### Consolidated condensed statement of financial position

Description	2017 R'm	2016 R'm
Non-current assets	<b>31 459</b>	14 395
PPE	<b>11 131</b>	7 752
Goodwill	<b>12 170</b>	2 288
Intangibles	<b>4 111</b>	908
Investment in Max Healthcare	<b>2 960</b>	2 547
Other	<b>1 087</b>	900
Current assets (excluding cash)	<b>4 004</b>	2 498
Cash	<b>1 176</b>	604
<b>Total assets</b>	<b>36 639</b>	17 497
Total shareholders' equity	<b>15 551</b>	6 798
Non-current liabilities	<b>9 991</b>	6 111
Interest-bearing borrowings	<b>7 786</b>	5 469
Other non-current liabilities	<b>2 205</b>	642
Current liabilities (excluding interest-bearing borrowings)	<b>4 796</b>	3 276
Interest bearing borrowings	<b>6 301</b>	1 312
<b>Total equity and liabilities</b>	<b>36 639</b>	17 497

### Capital expenditure and investments

During the current year, Life Healthcare invested R11 957 million (2016: R2 025 million), comprising mainly R9 568 million (net of cash acquired) for the acquisition of Alliance Medical, R428 million additional investment in Max Healthcare and R292 million (net of cash acquired) in new acquisitions by Alliance Medical. The Group invested in capital projects of R1 103 million in southern Africa and R553 million internationally. The Group approved R3.0 billion for our 2018 capital expenditure programme.

### Acquisition of Alliance Medical

On 21 November 2016, the Group acquired 93.78% of the issued share capital of Alliance Medical, incorporated in the United Kingdom (UK). This is accounted for as a 100% subsidiary in terms of IFRS. The exchange rate as at 21 November 2016 and 30 September 2017 was GBP1:R17.88 and GBP1:R18.18 respectively. The acquisition has been accounted for in terms of IFRS 3 'Business combinations'.

The increase in intangible assets at 30 September 2017 mainly relates to the goodwill recognised of R9.6 billion and fair value uplift of intangible assets of R3.5 billion related to the Alliance Medical acquisition.

The purchase consideration was initially funded through ZAR and GBP debt bridging facilities with the bridge funding

partially repaid through the successful completion of the rights offer. The rights offer consisted of 367 346 939 new Life Healthcare ordinary shares at a subscription price of R24.50 per rights offer share.

Adjustments to the management equity are accounted through profit or loss.

### Rationale

Life Healthcare views the entry into diagnostics as a natural part of the Group strategy of diversifying both internationally and into non-acute lines of business. Alliance Medical is one of western Europe's leading providers of complex molecular and diagnostic imaging services, with strong market positions in the UK, Italy and Ireland, with existing participation in 10 European markets and a platform for expansion. Alliance Medical is unique in western Europe in terms of its vertically integrated model providing services across the molecular imaging value chain ranging from radiopharmaceutical production to scanning services provision and results reporting.

### Benefits of the acquisition

The acquisition of Alliance Medical accelerates both Life Healthcare's expansion of its complementary services business, adding diagnostics to mental health, acute rehabilitation, renal dialysis and oncology and geographic diversification, firmly positioning Life Healthcare in a



## GROUP CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

strategically important high-growth business. Non-acute care revenue is now 27.6% of Group revenue (2016: 11.0%). International revenue as a percentage of Group revenue is now 23.6% (2016: 7.2%) and international normalised EBITDA as a percentage of Group normalised EBITDA is 19.0% (2016: 2.8%). Alliance Medical has a strong and highly complementary management team

### Net debt

Funding	2017		2016	
	R'm	Weighted average cost of debt (post-tax) %	R'm	Weighted average cost of debt (post-tax) %
Acquisition funding				
ZAR	4 851	7.32	2 951	6.67
PLN	801	3.77	773	3.76
GBP	992	2.26	–	–
Capex funding – ZAR	2 498	6.67	1 925	6.06
Poland	148	3.05	181	3.05
Alliance Medical	3 157	1.96	–	–
Capitalised finance leases				
ZAR	670	9.22	692	9.22
PLN	253	4.45	259	4.43
GBP	717	3.65	–	–
Working capital – ZAR	450	6.12	1 030	6.26
<b>Total</b>	<b>14 537</b>	<b>5.28</b>	<b>7 811</b>	<b>6.50</b>
		<b>(pre-tax)</b>		<b>(pre-tax)</b>
3M JIBAR rate		6.99		7.36
Prime overdraft rate		10.25		10.50
3M LIBOR		1.24		–
3M WIBOR		1.73		1.71

The decrease in the weighted average cost of debt is largely attributable to the debt raised and brought on as a result of the Alliance Medical acquisition. The interest rates in the UK are lower than those in South Africa; as the Group grows internationally the debt raised will be aligned to where the earnings are generated and this will bring down the Group's weighted average cost of debt.

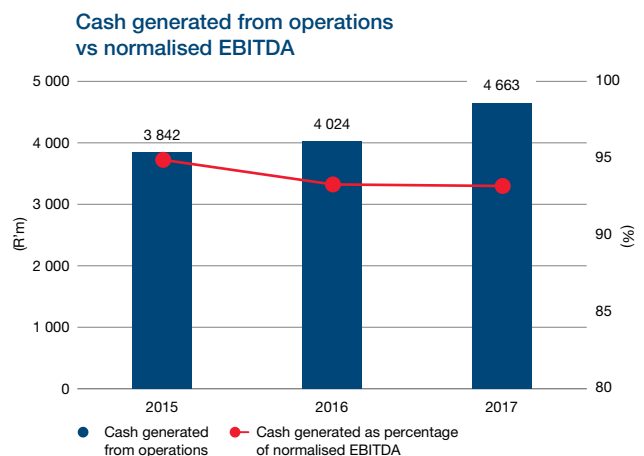
### Cashflow

The Group produced good cash flows from operations, and continues to anticipate positive free cash flow. The overall net cash inflow position of the Group is positive as a result of the related bridge loan funding raised for the acquisition of Alliance Medical and due to the rights offer proceeds that occurred in April 2017.

with broad healthcare experience to help support Life Healthcare's international growth.

### Borrowings

This increase in net debt is primarily due to the R14.6 billion raised in respect of the Alliance Medical acquisition, of which R8.8 billion was repaid with the net proceeds received from the rights offer.



## Distribution

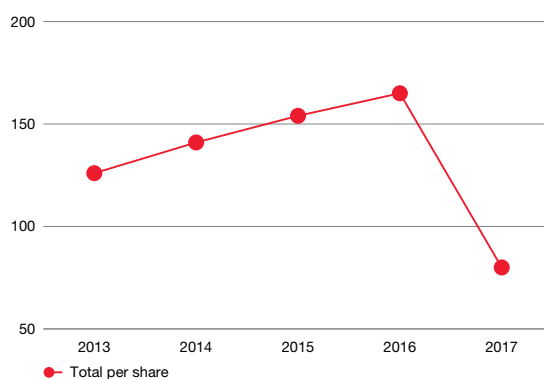
The Group's dividend policy is to pay a progressive dividend that takes into account the underlying earnings and available funding of the Group both in southern Africa and internationally, while retaining sufficient capital to fund ongoing operations and growth projects as well as manage gearing to acceptable levels.

In considering the dividend, the board has considered the impact of the rights offer, the one-off acquisition costs and the higher debt levels.

The board has declared a final distribution for the year of 45 cps (2016: 92 cps). It takes the form of fully paid Life Healthcare Group Holdings Limited ordinary shares or through a cash alternative. The scrip distribution, with the elective to receive the cash dividend, allows the Group to use the cash saved through the programme to support growth plans.

This gives our shareholders the opportunity to increase their shareholding in the Group and provides flexibility for those who would prefer to receive a cash dividend. The scrip distribution will be at a discount of 2.5% of the 15-day volume weighted average share price ending on 20 December 2017.

Dividend (cps)



**Pieter van der Westhuizen**  
Group Chief Financial Officer

# PERFORMANCE REVIEW: SOUTHERN AFRICA

**S**outhern Africa is our biggest source of revenue (76.4%) and is the headquarters of the Group.



## Geographical presence Facilities in South Africa

### Botswana

- Life Gaborone Private

### North West

- Life Anncron
- Life La Femme
- Life Peglerae

### Free State

- Life Pasteur
- Life Rosepark

### Mpumalanga

- Life Cosmos
- Life Midmed
- Life Piet Retief

### Gauteng

- Genesis Maternity Clinic

- Life Bedford Gardens
- Life Brenthurst
- Life Brooklyn Day
- Life Carstenhof
- Life Carstenview
- Life Dalview
- Life Eugene Marais
- Life Faerie Glen
- Life Flora
- Life Fourways
- Life Glynnview
- Life Groenkloof
- Life New Kensington
- Life Poortview
- Life Pretoria North
- Life Riverfield Lodge
- Life Roseacres
- Life Springs Parkland
- Life Suikerbosrand
- Life The Glynnwood
- Life Wilgeheuwel
- Life Wilgers

### Western Cape

- Life Bay View Private
- Life Kingsbury
- Life Knysna Private
- Life Orthopaedic
- Life Sports Science Orthopaedic
- Life St Vincent's
- Life Vincent Pallotti
- Life West Coast Private

### Eastern Cape

- Life Beacon Bay
- Life East London Private
- Life Eye Hospital East London
- Life Hunterscraig Private
- Life Isivivana Private
- Life Mercantile

- Life Queenstown Private
- Life St Dominic's
- Life St George's
- Life St James
- Life St Mark's
- Life St Mary's Private

### KwaZulu-Natal

- Life Chatsmed Garden
- Life Empangeni Garden
- Life Entabeni
- Life Hilton Private
- Life Mount Edgecombe
- Life St Joseph's
- Life The Crompton
- Life Westville

### Life Esidimeni

- Algoa Frail Care Centre
- Baneng Care Centre
- Kirkwood Care Centre
- Life Intermediate Care
- Life Recovery Centre, Randfontein
- Life Recovery Centre, Witpoort
- Lorraine Frail Care Centre
- Shiluvana Care Centre
- Siyathuthuka Care Centre
- Waverly Care Centre
- Mangaung Prison

• Hospitals and same-day surgical centres • Rehabilitation units • Mental health facilities • Specialised maternity unit • Life Esidimeni

**H**ealthcare providers face numerous emerging opportunities and challenges. Appropriately managing these risks and capitalising on opportunities support a sustainable and profitable business.

### Chief Executive Officer: Southern Africa overview

The South African economy remains under pressure with little or no employment growth resulting in the stagnation in medical aid membership which is a key driver in our value offering. In addition, there are other macro pressures, such as the consolidation of medical healthcare funders, HMI activity and the NHI White Paper which the Group remains cognisant of.

Life Healthcare experienced some challenges in occupancy and reduced PPD growth in the acute business compared to the previous year, yet we retained our market share and were able to recruit a significant number of doctors to alleviate some of our specialist shortages.

Complementary services are growing at a satisfactory rate and we are identifying and exploiting further opportunities. This includes investment in meaningful greenfield and brownfield expansions.

Significant highlights were the continued improvement in our B-BBEE efforts, raising the Group from non-compliant status under the new codes to a compliant level, and improvements in various quality metrics. The business obtained excellent employee retention figures and is increasingly benefiting from the effects of improvement efforts from the prior year. When coupled with reduced electricity and water consumption (notwithstanding increased bed numbers and facility growth), these highlights reflect a consistent commitment to efficiency in all forms of business growth.

The CARE programme resulted in a noticeable improvement in treatment of patients evident in the increase in patient satisfaction levels. The Group and its employees were impacted by the Life Esidimeni tragedy in a professional and emotional capacity, through a loss of contracts and an unacceptable loss of former patient lives. We express our condolences to the families of these former patients. New and returning patients are far more likely to obtain the



level of care they deserve through the revitalisation of the Life Esidimeni Gauteng partnership. A number of patients have already returned to our facilities which has positively impacted morale in the healthcare services division.

Going forward in a cost-constrained society, we intend to align to medical healthcare funder needs and challenges in order to respond appropriately during the annual reviews of contracts. Doctor partnerships and co-operation in developing service offerings for medical healthcare funders will become critical. We will seek to develop our delivery model to a clinician-based approach as opposed to a facilities-directed structure. This will help evolve our offering to meet the expectations of consumers in relation to the quest for affordable quality healthcare.

Our southern Africa operations will look to partner with government on matters of training and NHI development to find workable solutions that will preserve the vital role played by private healthcare in South Africa.



**Lourens Bekker**  
*Chief Executive Officer: Southern Africa*



# PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

## Performance review



### Growth<sup>1</sup>

Enhancement of our complementary service offering is supporting positive growth in southern Africa.

### Hospital division

Indicator	2017	2016	Year-on-year trend
Paid patient days (PPDs) <sup>A, B</sup>	2 226 337	2 265 653	↓
Occupancy (%)	70.0	72.5	↓
Length of stay (LOS) (days)	3.71	3.68	↑

<sup>A</sup> The 2017 indicator is externally assured. ✓

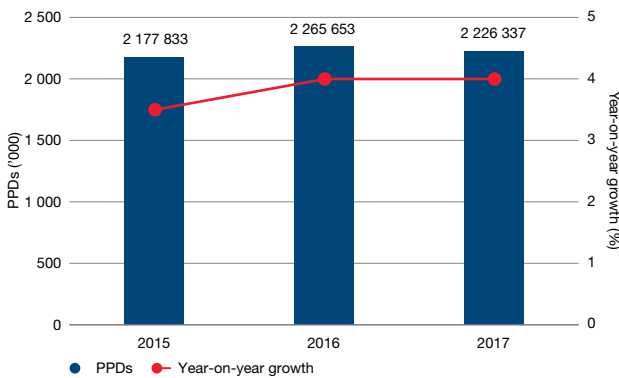
<sup>B</sup> The 2016 indicator is externally assured. ✓

## QUICK FACTS

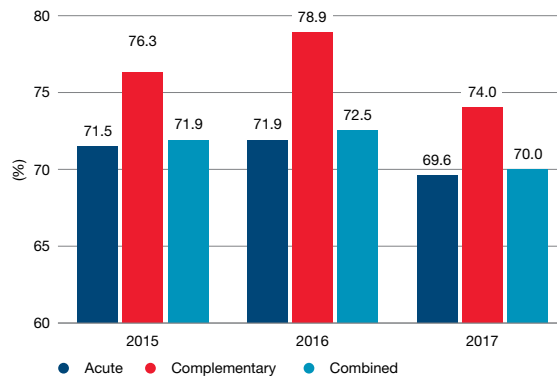
Occupancy refers to the number of beds in the Group utilised by patients, while length of stay (LOS) refers to the average amount of time spent in the hospital per patient visit.

LOS is an important measurement as it provides insight into the profile of the patient population and disease burden, LOS is increasing with an ageing population that has a slower recovery rate when being hospitalised.

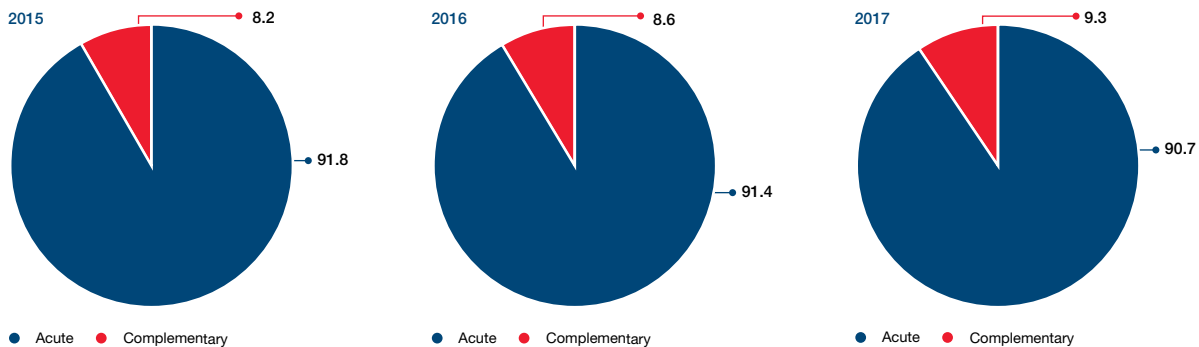
PPD growth ('000)



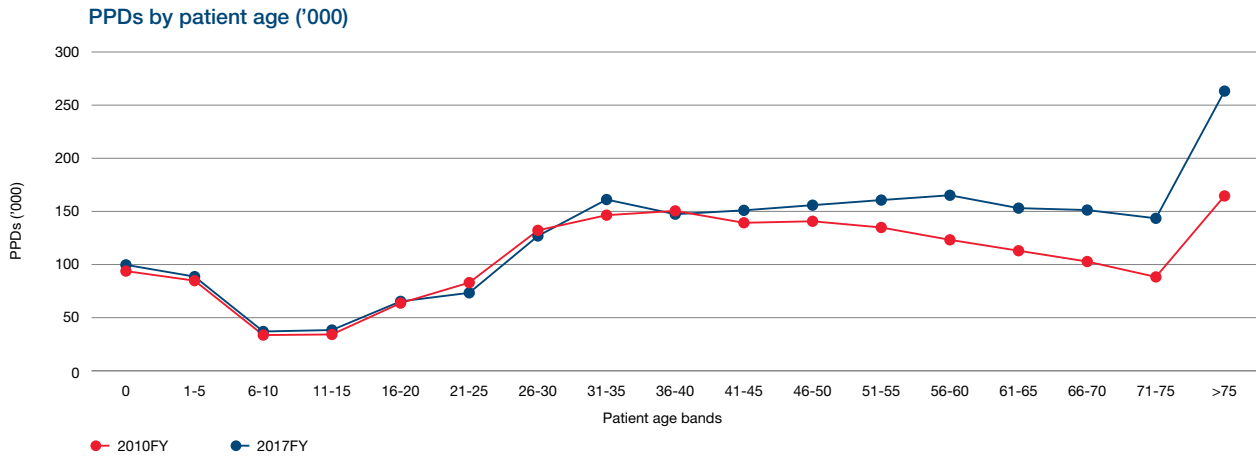
Southern Africa occupancy (%)



Southern Africa (% of beds)



<sup>1</sup> Refer to page 142 (strategic performance in numbers) and page 3 (Group structure and services provided) for the growth in facilities, beds, stations, etc.



Overall PPD performance was subdued as a result of the macroeconomic factors, including intensified case management efforts by medical healthcare funders. This resulted in a PPD decline of 1.7% translating into lower occupancy levels. LOS has increased to 3.71 days (2016: 3.68 days). This was due to an increased level of specialised care combined with a growth in the number of mental health and acute rehabilitation cases.

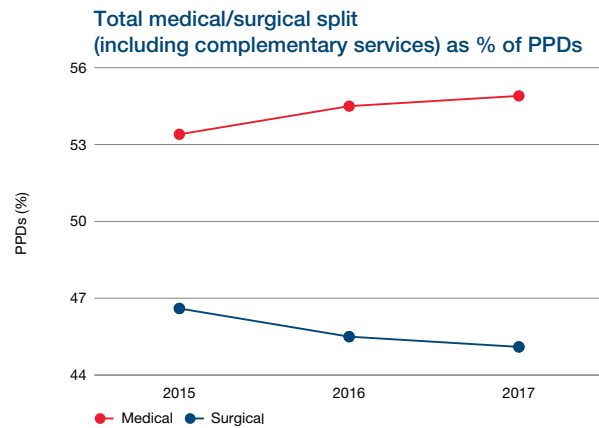
The shift in ageing of patients continues to impact our PPDs. In a flat market this trend is expected to continue.

Ageing impacts the LOS – the average LOS for patients over 50 is over 30% higher than patients under 50.

The percentage of medical cases relative to surgical cases has continued to increase year-on-year, although at a slower rate than before. Medical cases are traditionally driven by the macro factors such as age and disease burden, but medical healthcare funder pressures are negating this effect.

The overall relative growth in mental health and acute rehabilitation activities further added to the medical case mix.

#### Case mix changes



#### Acute hospital and complementary service growth

##### Capacity growth

Category	2018 forecast	Total beds 2017	Locations
Capacity expansion at existing facilities	120	51	<ul style="list-style-type: none"> <li>Life Flora</li> <li>Life Kingsbury</li> <li>Life Peninsula Eye</li> <li>Life Queenstown</li> <li>Life St Dominic's</li> <li>Life Hilton Private</li> <li>Life Midmed</li> <li>Life Mercantile</li> </ul>
Mental health	-	82	<ul style="list-style-type: none"> <li>Life Carstenview</li> <li>Life Riverfield</li> </ul>
<b>Total beds</b>	<b>120</b>	<b>133</b>	
Renal dialysis stations	13	22	<ul style="list-style-type: none"> <li>Life Robinson Private</li> <li>Life Springs Parkland</li> </ul>
Oncology units	-	2	<ul style="list-style-type: none"> <li>Life Oncology at Life Eugene Marais Hospital</li> <li>Free State Oncology</li> </ul>



## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

<b>Acute</b>	Our acute hospitals added 101 beds (2016: 125), with a mix of general and ICU beds. The Group has a further 100 beds currently under construction, expected to add capacity by the end of 2017.
<b>Mental health</b>	One greenfield facility became operational during the year, adding 60 mental health beds at Life Carstenview in Gauteng. Life Riverfield Lodge also expanded capacity by 21 beds during May 2017.
<b>Renal dialysis</b>	Growth in renal dialysis was subdued. Additional chronic stations were added at Life Robinson Private and Life Springs Parkland during the second half of 2017. This brings the total number of stations added for the year to 22 (2016: 36).
<b>Oncology</b>	Our premier oncology facilities at Life Hilton Private Hospital in KwaZulu-Natal and Life Vincent Pallotti Hospital in Cape Town continue to operate effectively. The addition of a new premier oncology unit at Life Eugene Marais Hospital in Pretoria was completed and operationalised. The facility boasts state-of-the-art radiotherapy equipment, able to treat complex cancer tumours through stereotactic radiotherapy. Life Healthcare increased our shareholding in Free State Oncology in Bloemfontein.
<b>Acute rehabilitation</b>	No additional beds were added.

### Acute hospital and complementary service pipeline

Category	Forecast 2018	Forecast 2019
Capacity expansion at existing acute facilities	120	–
New acute facilities	–	–
New mental health/acute rehabilitation facilities	–	125
Capacity expansion at mental health/acute rehabilitation facilities	–	20
<b>Total</b>	<b>120</b>	<b>145</b>

### Healthcare services division

Life Esidimeni secured the Gauteng mental health contracts following the non-governmental organisations (NGOs) redeployment matter (see next page). This resulted in positive growth after approximately 460 patients returned to our facilities.

Life Employee Health Solutions (EHS) operates through Life Occupational Health and Careways, providing wellness, occupational and primary healthcare services to a range of businesses. Life Employee Health Solutions increased the number of people treated by securing four new combined EHS contracts. The acquisition of the Border Occupational Health and Environmental Services business in East London strengthened our footprint in the Eastern Cape, adding 5 532 lives. Life Employee Health Solutions experienced revenue growth based on increased lives serviced, but this is at a lower price, adversely impacting margins.

Careways lost a number of contracts due to tender processes and companies taking wellness services in-house. The number of lives covered decreased by 4.3% to 248 804 (2016: 259 974). New growth exceeded lost contracts at lower margins and for smaller-sized

organisations. Increased focus will be placed on growth and client retention strategies going forward.

The number of Careways on-site clinics increased to 78 (2016: 74). The Careways network of affiliates increased by 27% and improved our geographic reach, thereby reducing costs required to service clients in more remote areas.

Product diversification positively impacted strategic growth prospects with existing clients. Careways retained its top 10 anchor clients since its acquisition by Life Healthcare, and provides services to 10 companies which are also serviced by Life Occupational Health. The Group is increasingly combining the offerings of these two entities to strategically grow both businesses.

Challenging economic conditions resulted in the loss of a number of contracts due to the liquidation or closure of client sites. Despite this, Life Occupational Health experienced a positive year due to an aggressive growth strategy and strong client retention. The number of lives covered increased by 39.6% to 222 895 (2016: 159 685), and clinics decreased by 3.0% to 288 (2016: 297).

Approximately 36% of the occupational health business comes from the mining sector, which experienced minimal growth. The Mining Charter requires service providers to be a minimum 25.1% black-owned. This was addressed by introducing a B-BBEE trust that is funded by the Group to award nursing degree bursaries for previously disadvantaged individuals. Regions not particularly dependent on mining continue to perform well and further growth is expected in 2018.

The occupational health clinic management system is being developed for occupational health service use. This is an automated paperless system for the clinics to replace the Medoc management system. We foresee full operational activity in February 2018. The Careways Wellness System replacement for the iCare system is anticipated to be complete by June 2018.

#### **EOH Workplace Health and Wellness transaction**

Post approval by the Competition Commission, Life Occupational Health acquired the EOH Workplace Health and Wellness division (EOH WHW), from EOH Abantu Proprietary Limited effective 1 October 2017.

Life Healthcare now has improved access for clients needing integrated health and wellness offerings, and has a prominent foothold in occupational health and wellness service provision across all business sectors. The Group will leverage EOH WHW's systems and solutions, including medical surveillance, primary healthcare, wellness interventions, travel medicine, executive wellness, medical incapacity/disability management, employee assistance programmes, organisational resilience programmes and on-site corporate gym management services. An integration team was established to ensure synergies are maximised.

#### **Mental health investigation**

In 2016, the Gauteng Department of Health terminated a long-standing chronic mental healthcare contract with Life Esidimeni. This came about as part of government's efforts to implement a policy of community-based non-institutional care for mental healthcare patients, and to reduce expenditure by the provincial department. Approximately 1 500 patients were transferred to NGOs of varying capacity and experience, sadly leading to the death of numerous patients.

The Office of the Health Ombud investigated this process. The findings gave insight into the disconcerting circumstances relating to the transfer of the mentally ill patients from Life Esidimeni to various NGOs. Reference to Life Esidimeni in the report was positive and reassuring in relation to the care that was offered at our facilities.

Following the Ombud's findings, approximately 460 former mental healthcare patients were transferred back to Life Esidimeni care centres in Gauteng. The National Department of Health applied new standards of licensing to care facilities which provided the opportunity for Life Esidimeni to upgrade its facilities and increase employee capacity in the process. The costs of the new requirements will be recovered through a higher tariff.

We are committed to supporting the Department of Health through a more community-based care model over the next few years. This could present new opportunities and help position the Group positively in the face of increasing competition from smaller NGOs offering similar services.

## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED



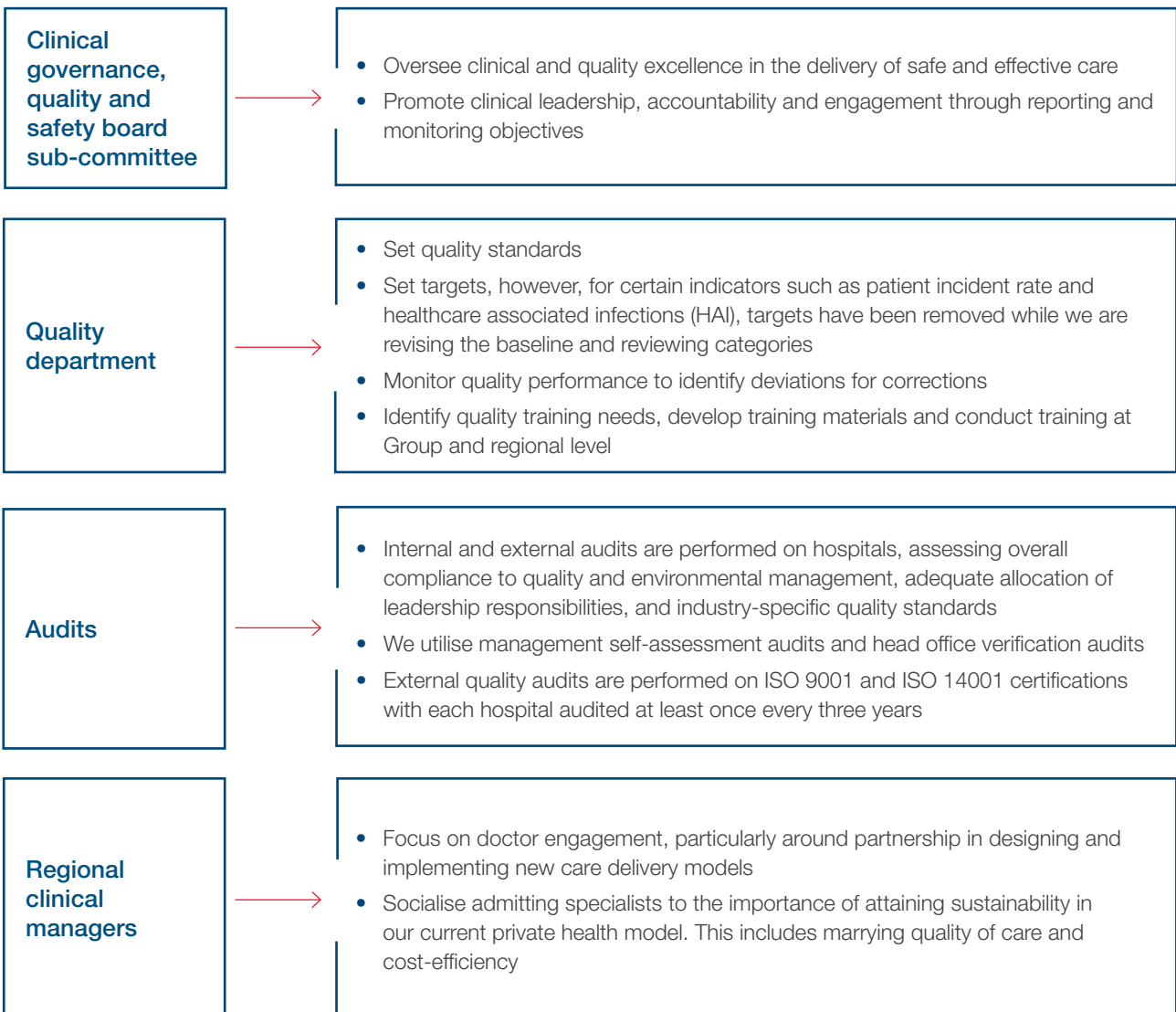
### Quality: Clinical governance

**M**aintaining and improving the quality of care is integral to the Group's core values and to differentiate Life Healthcare as a preferred healthcare provider.

#### Clinical governance and quality management systems

We manage all quality-related elements of our southern Africa operations using a single Quality Management System (QMS). All processes and systems that may impact the delivery of a quality service are aligned to the system, and administered by our quality department with the support of the board's new clinical governance, quality and safety committee. All quality incidents are reported through an online reporting system with standardised categories to allow for effective data management, analysis and reporting. Incidents are classified according to major or minor incidents, and data trends are identified annually for pro-active management.

The clinical governance and quality management hierarchy and activities are as follows:



## Standards

Life Healthcare is the only hospital group in South Africa to have achieved multi-site ISO 9001:2008 quality management group certification for all acute hospitals and our Life Occupational Health clinics. We are implementing the new ISO high-level structure in order to comply with the 2015 standards. Life Occupational Health extended its certification to ISO 45001 Occupational Health and Safety Management System Standard to further align with the requirements of our clients.

The Department of Health National Core Standards were promulgated in 2011 as the minimum standards for quality in all hospitals. Life Healthcare has integrated the standards in its QMS over a period of five years, ending in 2015. The statutory requirements set by the Department of Labour, as

stipulated in the Occupational Health and Safety Act and other related acts, are used as the minimum standard for processes and procedures.

### BetterObs

Life Healthcare launched the BetterObs programme in all its maternity units on 1 June 2017. The programme is developed in collaboration with the South African Society of Obstetricians and Gynaecologists (SASOG) and has four main pillars: the obstetrician, paediatrician, hospital and patient. BetterObs is focused on developing unambiguous practice guidelines and good teamwork that promotes professional integrity in delivering optimal patient care. We foresee a positive impact in mitigating risk.


## Quality<sup>1</sup>


Indicator	2017 target	2017	2016	Year-on-year trend
<b>Quality metrics</b>				
Recommend (%)	70.0	70.0	69.4	↑
Patient experience (%)	8.0	8.4	7.7	↑
<b>Clinical indicators</b>				
Patient incident rate <sup>2</sup> (per 1 000 PPDs) <sup>A, B</sup>	n/a <sup>3</sup>	2.69	2.53	↑
Healthcare associated infections (HAI) (per 1 000 PPDs) <sup>2, A, B</sup>	n/a <sup>3</sup>	0.42	0.37	↑

<sup>1</sup> Refer to  page 142 (strategic performance in numbers) for more quality indicators.

<sup>2</sup> Patient incidents: Unintended or unexpected events which could have, or did, result in harm – this includes medication, falls, pressure ulcers, procedure-related incidents, behaviour, death due to unnatural causes, burns, other patient incidents, patients absconding and other patient information incidents.

<sup>3</sup> Patient targets were removed in 2017 in order to encourage better reporting.

<sup>A</sup> The 2017 indicator is externally assured. 

<sup>B</sup> The 2016 indicator is externally assured. 

Life Healthcare monitors additional quality measures such as mortality rates and readmission rates according to American standards (aligned to those used by Medicare in the USA). Going forward, other quality outcomes such as mortality rates for certain conditions will be published. This proactive reporting will promote transparency with stakeholders, particularly medical healthcare funders.

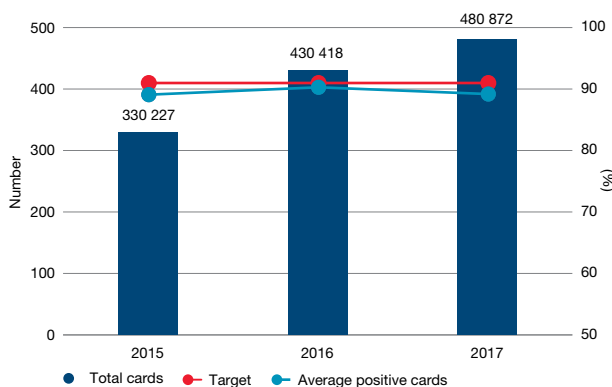
## Patient experience

Life Healthcare uses an independent service provider to obtain patient feedback through a survey process. All patients discharged from our hospitals receive an SMS or email within 24 hours of being discharged. The survey touch points and questions are based on Hospital Consumer Assessment of Healthcare Providers and Systems in the United States, with additional admission and food-related questions. This system is supported by a manual comment card process that patients and their families can use to provide qualitative feedback and comments.

Our acute facilities, emergency units and acute rehabilitation facilities participate in the electronic post-discharge survey.

Our mental health facilities were included in the process for the first time this year. We are able to obtain real-time reports with detailed feedback on a Group, regional and facility level. This serves as an insightful management tool, allowing for identification of deviations for monitoring and improvement.

### Comment cards



## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

Our patient experience scores improved across all our metrics year-on-year. The improvement is linked to our effective governance approach and activities such as the CARE programme. Our “definitely recommend” inpatient score improved by 0.6%, and overall experience emergency unit score improved by 0.6%. We had 50 454 (11.7% increase) more comment cards and 32 665 (8.2% increase) more positive responses. This emphasises our positive performance according to the complaint rate per 1 000 PPDs of 0.71 (2016: 0.74).

The lowest scoring touch points for inpatient feedback are food and medication information – these are handled as focus areas throughout our facilities. The emergency unit’s lowest scoring touch point is prioritisation. In response, there is increased operational focus on applying the correct triage and improving communication to the patient and family members.

Globally, patient experience has become pivotal in terms of assessing the quality levels of a hospital. The industry feedback from patient experience provides an indication of preferred service providers and greatly impacts the reputational positioning of our facilities and the Group. A leading medical healthcare funder continues to publish the results of a member experience survey for private hospitals nationally. Although subjective, the results aid the establishment of internal quality benchmarks. A Top 20 private hospital ranking is published by Discovery Health annually and provides some indication as to overall patient experience. Life Healthcare has two large hospitals in the rankings that are otherwise dominated by smaller hospitals.

As of November 2017, facilities’ real-time patient experience scores will be reported on the Life Healthcare website.

### CARE programme

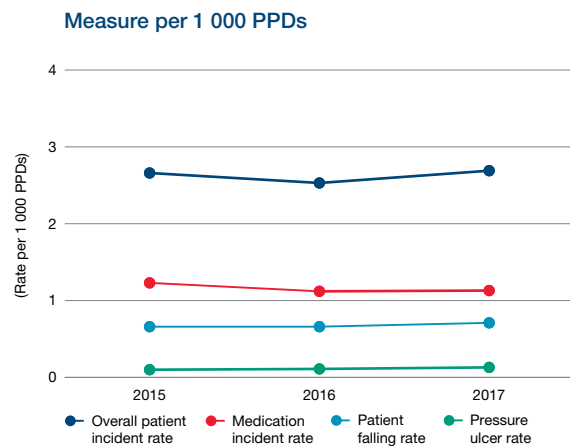
The CARE programme, launched in 2015, continues to promote positive patient and client interaction, positively influencing patient experience scores and client feedback scores. The first phase focused on teaching our internal employees positive engagement techniques. The second phase has started and involves all 5 000 outsourced service providers and includes catering, cleaning, security, coffee shop, gardening and grounds. The programme focus will be establishing an understanding of the outsourced employees’ role in the overall patient experience and harnessing that understanding to leverage positive, empathetic care.

To sustain the CARE programme’s impact on our permanent employees, we instituted monthly CARE sessions that take place at team meetings and are compulsory for all departments. The intent is to promote a simple and functional dialogue that translates into committed actions that will enhance employee and patient experiences.

As a sustainability measure, an energising video has been developed and showcases success stories of CARE to motivate our employees. This will be introduced to the business in 2018.

### Patient incidents

Life Healthcare reports on and attempts to mitigate all incidents with additional focus on four key patient risk areas as outlined in the graph that follows. All patient incidents are reported and investigated by the responsible managers at hospital and Group level. Root causes are identified, and corrective action is implemented to avoid recurrence or similar incidents. A pro-active near-miss reporting system is in place for potential incidents. Alerts are reported and drive internal preventative measures at hospital level through increased awareness of any potential unsafe conditions or actions.



The overall patient incident rate increased by 0.16 as a result of changes in incident categories and progressive reporting improvements.

### Clinical infections

Life Healthcare has a number of systems to manage and monitor clinical infections, including an electronic surveillance system (ICNet), internal and external audits, and comprehensive work procedures based on international best practice evidence. Infection prevention and control measures are re-enforced by regular campaigns such as hand hygiene, outbreak management and “sharps<sup>1</sup>” injury awareness.

We primarily report on healthcare associated infections (HAI), as the metrics involved are the most material measures for the proactive management of infections.

HAI metrics increased from 0.37 to 0.42 per 1 000 PPDs as a result of more multi-resistant organisms. The use of ICNet supported the ability to generate automated laboratory reports and improved the efficiency of our reporting.

## QUICK FACTS

HAI combines all the healthcare associated infections determined according to the Centre for Disease Control guidelines.

- Ventilator associated pneumonia (VAP)
- Surgical site infections (SSI)
- Central line associated bloodstream infections (CLABSI)
- Catheter associated urinary tract infections (CAUTI)
- Various hospital acquired infections as per the Centre of Disease Control (CDC)

### Life Healthcare antimicrobial stewardship (AMS) programme

The AMS programme has shown significant growth over the past year. Due to the rapid increase in antimicrobial resistance globally, the focus of our AMS programme is to ensure the responsible use of antimicrobials in our hospitals through a multi-disciplinary approach.

AMS assessments done by pharmacy and nursing personnel are recorded electronically, and the number of assessments performed has improved by 36.5% year-on-year. These assessments involve an evaluation of compliance to several identified AMS bundle elements. The overall percentage of our AMS bundle compliance was 91.4% (2016: 89.1%), above the Group’s target of 85%. Interventions are being suggested for elements of non-compliance. The percentage acceptance of interventions suggested was maintained above the group target of 80%, at 83.9% (2016: 88.3%).

In addition, we focused on responsible utilisation of antimicrobials for surgical prophylaxis aligned to our evidence-based guidelines. Quarterly audits were introduced in April 2017. For these audits, our pharmacists audit compliance is assessed according to several elements of prophylaxis per surgical discipline. According to the baseline audit, an improvement of 5% in the total percentage compliance to guideline recommendations was achieved. This is significant as the number of audits conducted by pharmacists increased by 29.3%.

Our clinical pharmacy programme has developed and continues to focus on improving patient outcomes. This is reflected in the number of interventions suggested which have increased by 35.7% over the year. The pharmacists interact directly with the multi-disciplinary team at the patient’s bed-side, and provide valuable pharmacotherapy input and guidance. Progress is clearly reflected by the 57.1% year-on-year increase in the number of ward rounds that pharmacists have conducted with our doctors.

<sup>1</sup> Sharps refer to any device or object used to puncture or lacerate the skin, such as syringes.



## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED



### Efficiency: Procurement

Life Healthcare's total procurement spend was R9.4 billion (2016: R10.4 billion), with R4.1 billion (2016: R3.8 billion) spent on pharmaceutical products and R4.1 billion (2016: R4.1 billion) on medical equipment, services and consumables. 60% (2016: 60%) of the Group's procurement spend is exposed to exchange rate volatility. The top four spend categories include surgical consumables, pharmaceuticals, services and nursing agencies. The Group was successful in containing prices to within CPI levels.

We continue to drive efficiencies through rigorous tender processes, rationalisation of products and equipment, and

compliance and asset management. Specific programmes related to alternative procurement strategies were implemented and will allow the Group to leverage opportunities across a basket of products. Our procurement reporting capability improved as a result of the implementation of the enterprise resource planning (ERP) procure-to-pay system.

Key dependencies in our supply chain include availability of inventory and services due to shortages of raw materials, increase in demand, labour unrest and exchange rates. Key medical equipment maintenance agreements within South Africa were standardised.



### Sustainability: Electricity, water and waste

Life Healthcare uses an ISO 14001 approved environmental management system (EMS) across our southern Africa operations.

Indicator	2017	2016	Year-on-year trend
Electricity usage (kWh) <sup>1</sup>	148 560 938	154 022 258	↓
Water usage (kℓ) <sup>1</sup>	1 246 804	1 289 002	↓
Healthcare risk waste (HCRW) (kg/PPD) <sup>A</sup>	1.81	1.73	↑

<sup>1</sup> These figures are based on best estimates using available information.

<sup>A</sup> The 2017 indicator is externally assured.

We established the environment and climate change forum as a high-level structure to drive environmental sustainability. The purpose of the forum is to give direction to the quality and engineering departments on EMS-related matters, and to report on environmental matters to the board, through the board social, ethics and transformation committee.

#### Electricity

Total electricity consumption reduced by 2% from 68 kWh/PPD in 2016 to 67 kWh/PPD in 2017. This was driven by energy-efficient projects such as the PV solar project at Life Fourways Hospital, heat pump programmes and LED lighting projects. Phase 1 of the LED lighting and occupancy sensor project was completed at five of our large hospitals during September 2017. We anticipate a saving of more than 1MW per month, which will be

monitored via the online metering system. We have already exceeded our energy saving target of 10% over five years through the effective implementation of our energy saving projects. Further reduction targets will be reviewed for the next financial year.

## QUICK FACT

The 580 kilowatt peak<sup>2</sup> (kWp) Life Fourways Hospital solar (PV) project was commissioned on 1 October 2016. The PV plant supports 13% of overall electricity consumption at the hospital.

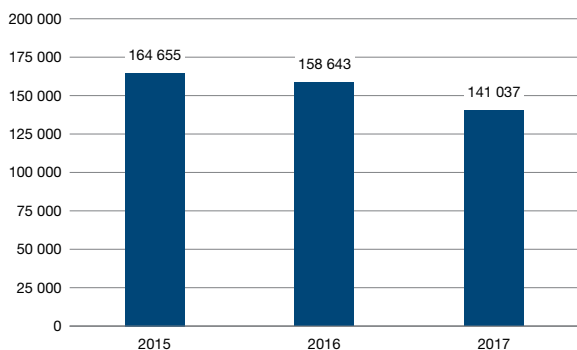
<sup>2</sup> Term used to define the maximum generation capability of the PV system.

With the exception of Life Piet Retief Hospital, all acute hospitals in our southern African operations have at least two generators allowing for a secondary backup. Life Huntersraig Private Hospital, a psychiatric hospital, and Life St James Hospital each have a single generator and uninterruptible power supply devices. A detailed review of generator assets and loads at facilities was conducted. New, larger generators are being purchased for larger hospitals as and when required. The replaced units are re-assigned to smaller hospitals where needed.

**Carbon emissions**

In 2012, Life Healthcare set out to reduce Scope 2 carbon emissions at acute hospitals in southern Africa by 2% annually. The aim was to achieve a cumulative reduction in emissions of 10% by 2017. We achieved a 3.6% reduction in Scope 2 emissions in this period, based on a consistent calculation using the South African factors. The business’s CO<sub>2</sub> efficiency remains high: CO<sub>2</sub>/R<sup>2</sup>m is R1 301 (2016: R1 099), an 18.4% increase, largely driven by tariff increases. A sustainability scorecard was implemented in 2016, and we will use 2017 as a baseline year for future reporting and target setting. We intend to include carbon savings from recycling and PV generation in future reporting.

**Carbon footprint for energy used – (CO<sub>2</sub> tonnes)<sup>1</sup>**



**Water**

The Group’s water consumption reduced by 2% to 0.56 kl/PPD (2016: 0.57 kl/PPD). The improvement is largely due to employee awareness, installation of more efficient autoclaves and the re-use of grey water and run-off water for landscaping. The autoclaves were installed at various hospitals as part of their equipment replacement capital expenditure and save approximately 30ℓ of water per sterilisation cycle.

Water shedding or shortages are mainly related to the recent drought and government-maintained infrastructure challenges. In line with international trends, Life Healthcare has 24-hour water back-up installed at all acute facilities. This ensures adequate water storage to reduce the impact of water outages on operations.

Each hospital has an emergency plan with a list of approved vendors to call in emergencies. These lists are readily available on the Life Healthcare intranet.

**Waste** ✓

Hospitals are encouraged to investigate opportunities to minimise waste. HCRW is the only measurable waste stream reported throughout the Group. The volume increased from 1.73kg/PPD in 2016 to 1.81kg/PPD. The increase is due to changes made to pharmaceutical waste regulations and fluctuations in patient treatment profiles. Large volume parenteral containers, colloquially known as “drips”, are now treated as HCRW by legislation, and their widespread use in our facilities has influenced the total volume. Different patient profiles, for example medical and renal patients, will generate different levels of waste which can affect waste totals, depending on the case mix for the year.

<sup>1</sup> 2015 and 2016 are calculated using Eskom factors. 2017 is calculated using the South African factor, which takes renewable energy into account.

## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED



### Sustainability: Broad-based black economic empowerment

Life Healthcare is committed to substantive transformation which goes beyond compliance.

Life Healthcare recognises the importance of an inclusive, broad-based and integrated approach to empowerment.

#### Ownership

The Group has undertaken an impact assessment of black ownership in Life Healthcare for the period before and after the rights offer in April 2017. The evaluation included the extent to which black people and black women hold economic interests and voting rights, and the flow through mandated investments as defined in the Codes of Good Practice. These are as follows:

Voting rights deemed to be held by black people	17.52%
Voting rights deemed to be held by black women	6.33%
Economic interest deemed to be held by black people	12.01%
Economic interest deemed to be held by black women	4.42%

The board approved the sale of 25%+1 share of Life Occupational Health to The Life Healthcare Nursing Education Trust (the Trust). The Trust is now registered to provide nursing degree bursaries to previously disadvantaged individuals. During the course of the financial year, the Group finalised the Trust deed and formally appointed three independent and three Company trustees. The first trustee meeting was held in September 2017.

#### Enterprise and supplier development (ESD)

##### Enterprise development (ED)

The following ED initiatives achieved maximum ED scores:

- Doctor loans for equipment and support initiatives
- An R18 million B-BBEE Nursing Trust loan
- R5 million grant donation to the B-BBEE Nursing Trust

##### Supplier development (SD)

Fibon Energy, a level 1 exempt micro enterprise, was granted a supplier development loan of R25 million over five years. This loan was for design, commission and installation of three solar systems at Life Wilgeheuwel, Life Wilgers and Life Rosepark. Fibon will sell the electricity generated from each solar system to Life Healthcare. Fibon will also provide energy management services at market-related rates with a focus on providing accreditation and green building certifications to targeted Life Healthcare hospitals.

#### Procurement

##### B-BBEE procurement spend

Level	2017 %	2016 %	2015 %
Level 1 to 3 B-BBEE spend	19	34	35
Level 4 to 8 B-BBEE spend	52	39	35
Non-B-BBEE spend	26	23	26
Exempt	3	4	4

The change in the levels of B-BBEE procurement spend is as a result of the stringent new scorecard regulations.

#### Socio-economic development

Our corporate social investment activities are aligned with the definition of socio-economic development in the Codes of Good Practice. The activities contribute to meaningful and sustainable projects in the communities we serve through various initiatives. Refer to [page 94](#) for more information on the Group's corporate social investment.

#### Employment equity

Refer to [page 75](#) for information on the Group's internal transformation efforts.

#### Training

Refer to [page 75](#) for information on the Group's training programmes.

### B-BBEE recovery forecast

The Group has engaged in several B-BBEE scorecard enhancement initiatives to improve the scores.

- Ownership: Life Healthcare is reviewing the interest from potential new black investors to acquire shareholding in Life Healthcare. This process is ongoing.
- Management control: ACI appointments to the board and other management levels are achieving desired target scores.
- Skills development: various new executive and senior management training programmes are in progress. These programmes will enhance the general training spend in the business. There has been an increase in the intake of unemployed learners, unemployed disabled learners, and the absorption rates of unemployed learners into the business.
- Enterprise and supplier development:
  - Preferential procurement: Instead of buying directly from abroad, the Group is supporting the local distribution companies of various multi-nationals for medical equipment and pharmaceuticals. Each division, including engineering, pharmacy and Group procurement, will have their own preferential procurement scorecard for effective monitoring and control. An education and awareness drive will be undertaken with non-compliant vendors.
  - Enterprise development: The number of loan requests from doctors seeking new equipment has increased. The supply of such loans contributes to ED and further initiatives will be pursued and aligned to net profit after tax targets.
  - Supplier development: Additional supplier development initiatives will be pursued and aligned to net profit after tax targets.
- Socio-economic development: Life Healthcare will continue to pursue funding of new projects aligned to net profit after tax targets.



## Sustainability: Human resources

**H**aving the right people with the right skills has a direct impact on the achievement of our objectives and the quality of care we provide.

South Africa continues to experience a significant shortage of clinical skills such as nurses, pharmacists and doctors. This influences our ability to appropriately staff our existing facilities with adequate skills.

Indicator	2017	2016	Year-on-year trend
	Number of nurses registered in training African, Coloured and Indian (ACI) employees (%)	<b>1 358</b>	1 052
	<b>72.6</b>	72.2	↑

## QUICK FACTS

- **14 466 permanent employees** (2016: 14 269)
- **Achieved the lowest employee turnover rate** (10.6%) in the last 10 years

## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

### Employee retention

#### Headcount

Category	2017	2016	2015
Administrative employees	2 934	2 930	2 879
Nursing personnel	9 332	9 166	9 180
Pharmacy employees	333	334	323
Rehabilitation employees	241	224	258
Services employees	1 366	1 379	1 316
Other	260	236	226
<b>Total permanent</b>	<b>14 466</b>	14 269	14 182
Temporary personnel <sup>1</sup>	1 094	1 106	1 285
<b>Total employees</b>	<b>15 560</b>	15 375	15 467

<sup>1</sup> Includes sessional hourly paid employees, and excludes agency employees.

Our employee turnover rate reduced to 10.6% (2016: 14.1%), excluding retrenchments and Section 197 transfers. This is mainly as a result of a number of human resource (HR) interventions relating to employee relations and reviewing conditions of employment such as benefits, a targeted allowance structure and career development opportunities. Our workforce is predominantly female, and competitive maternity benefits continue to act as a significant attraction and retention mechanism. Above-inflation wage increases in the public sector is a continuing challenge in managing cost.

The annual employee engagement and enablement survey was conducted in March 2017. A total of 9 288 employees were included in the sample, and a 64% response rate was achieved. The survey highlighted various improvement areas. These key themes are:

1. Improve and enhance the visibility of leadership
2. Create employee engagement platforms to foster two-way communication and improve collaboration
3. Provide line-of-sight and accessibility of the career development processes
4. Provide education on pay and benefits

Each theme will be addressed through interventions to be implemented over the next two years, leading up to the next survey in 2019.

#### Nurses

Employing a sufficient amount of registered nurses remains a challenge. To aid in remedying the deficit, Life Healthcare implemented a number of training and development programmes, including a nursing mentoring programme. The annualised nurse turnover rate was 18.7% (2016: 18.9%) for registered nurses and 15.4% (2016: 20.4%) for qualified specialist nurses. This is being addressed through training, recruitment and retention strategies.

Nurses from Max Healthcare were periodically seconded to southern Africa. There are 27 professional nurses participating in the Max Healthcare exchange programme. The Group has 124 foreign nurses gaining international exposure and training at Life Healthcare hospitals.

Life Healthcare continues to have high reliance on agency employees as a result of employee preferences on work times, and our encouragement of flexible hours for young mothers caring for their families. Seven accredited nursing agencies provide a service to Life Healthcare. Nursing agency rates are standardised at regional level, and agency management criteria are aligned to national service level agreements. The Group aims to have a total monthly agency employee count of 25% or less to aid flexible staffing. High-risk hospitals and units are managed and monitored on a daily basis through nursing cost dashboards. The national average agency utilisation is 22.5% (2016: 23.4%). There is a noticeable improvement in the management of employee costs through effective agency utilisation and overtime costs following the implementation of cost control measures.

#### Pharmacists

Through the implementation of strategic interventions, Life Healthcare has seen a marked decrease in the annual turnover rate of pharmacists of 16.2% in 2017 (2016: 21.1%). The Group has various pharmacist recruitment and retention initiatives in place to further mitigate the risk of this skills shortage. These include our:

- clinical pharmacy programme;
- pharmacy manager development programme;
- pharmacist intern programme; and
- pharmacy preceptor programme in collaboration with a leading university.

These initiatives are supported by appropriate recruitment activities with support from market-leading recruiters, and provide training opportunities for our employees to improve their competency and skills.



## Sustainability: Transformation

Life Healthcare's transformation goals are that our workplace employee profile reflects the demographics of the countries we operate in, and that we build a culture of inclusivity.

### Employment equity in the management bands

Management level	2017 %	2016 %	2015 %
Top management	<b>29.0</b>	33.0	36.0
Senior management	<b>36.0</b>	30.0	30.0
Middle management	<b>39.0</b>	39.0	40.0
Junior management	<b>59.0</b>	58.0	56.0

We continued with initiatives that enhance the employee experience and build a culture of inclusivity through various forums. These include the national transformation committee, employee forums like the consultative forums at hospital level and various employee communication forums.

The changes in our employment equity are as follows:

- 5% decrease in top management due to the executive restructuring which included the introduction of Group and South African executive structures.
- 6% increase in senior management as a result of the appointment/promotion of six ACI candidates into this level.
- Middle management is the talent feeder into senior management. Therefore, it decreased by 3% partly due to the improvements in senior management and partly due to recruitment activities and ACI retention challenges within this level.
- Junior management increased by 3% due to the continued challenges of sourcing and retaining ACI talent at this level.

The percentage of women in the Group remained high at 83% (2016: 83%). Of the executives and managers (middle management and above), 63% (2016: 58%) are female, and four of the Group's nine non-executive directors are women. The number of people with disabilities increased to 102 (2016: 101).

### Industrial relations

Overall unionisation levels increased to 20.7 % (2016: 17.9%) as a result of inter alia the union's drive to increase membership. Wage negotiations with organised labour are becoming increasingly difficult in an environment characterised by high wage settlements.

The Group continues to maintain healthy relations with organised labour and experienced no industrial action in the year.

### Trade union affiliation

Trade union	2017 %	2016 %	2015 %
NEHAWU <sup>1</sup>	<b>12.6</b>	9.4	11.1
HOSPERSA <sup>2</sup>	<b>5.6</b>	5.8	5.8
DENOSA <sup>3</sup>	<b>1.4</b>	1.6	1.8
Other <sup>4</sup>	<b>1.1</b>	1.1	1.0

<sup>1</sup> National Education, Health and Allied Workers.

<sup>2</sup> Health and Other Service Personnel Trade Union of South Africa.

<sup>3</sup> Democratic Nursing Organisation of South Africa.

<sup>4</sup> Includes BPMHSW (Botswana Private Medical and Health Services Workers Union) and General Industrial Workers Union of South Africa.

### Training and development

Life Healthcare spent approximately R133 million (2016: R115 million) on training. 327 (2016: 201) learners were enrolled in nursing, pharmacy and technical and vocational education training learnerships. We granted bursaries to 300 employees (2016: 181) to encourage further studies toward the scarce skills required, 119 (2016: 110) of which are for registered nurses trained at other tertiary institutions, and 80 (2016: 57) students are sponsored for basic nursing degrees.



## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

### Nurses in training

Nurse category	2017	2016	2015
Enrolled nurses <sup>1</sup>	44	236	493
Bridging programme leading to registration as a nurse	820	604	605
Specialist nurses (ICU, high care, theatre)	271	89	103

<sup>1</sup> Programme phased out.

The Group operates a registered higher education institution – The Life College of Learning. The college has seven learning centres. Of the 1 358 students (2016: 1 052) registered in the Life College of Learning, 91.5% (2016: 91.4%) are female and 90.4% (2016: 87.7%) are ACI candidates.

There was a 29.1% increase in the number of employees enrolled in post basic studies this year, and a 62.7% increase in the number of registered nurses being sponsored for training. This increase was in response to a looming challenge – the South African Nursing Council (SANC) nursing qualifications are changing, and the current basic nursing qualifications will be phased out by 2021. The new qualifications are late in being phased in, leading to an expected scenario in 2020 where no new nurse graduates will become available to meet the needs of the business and industry. The enrolled nursing programme was phased out nationally in June 2015; thus, the college no longer accepts intakes for this programme. Currently enrolled nurses will complete the course.

Additional funding was provided to assist external nurses who wanted to train at the Life College of Learning. Life Healthcare recruited more nurses with bachelor's qualifications from local universities. The approach was to 'buy-out' the contracted employment of prospective graduates and offer bursaries to the student nurses.

The management development programme facilitates the improvement of nursing management and leadership at middle management level. High-performance individuals are identified and developed to create a leadership pipeline. This supports enhancement of specific leadership and management skills for employment equity individuals. 18 candidates were selected for the programme, 55.5% of whom are ACI candidates. The programme will commence in August 2017.

### Student education level

Level	2017	2016
Basic	864	840
Post-basic diploma	221	67
Operating department assistance <sup>2</sup>	66	37
Midwifery	50	22
Short learning programmes	157	–
<b>Total</b>	<b>1 358</b>	966

<sup>2</sup> Three-year operating department assistant diploma in health sciences

### Talent and succession management

A succession management process was rolled out through national talent reviews. A psychometric assessment process was completed for identified successors at senior management levels. Its feedback informed individual development plans, leadership programmes and mentorship programmes.

Leadership development programmes are in place at all levels of management. The Group partnered with various providers in delivering these programmes, including the Gordon Institute of Business Science.

### Reward and recognition

The Group performs regular market benchmarking of remuneration. We assess the individual and their role in ensuring equitable reward and recognition. Refer to our remuneration report on page 123. We have a recognition programme in place where monthly and quarterly award winners are eligible for an annual award at the Life Achiever awards.



## Quality: Employee health and safety

In addition to complying with the Occupational Health and Safety Act (OHSA) and the Compensation for Occupational Injuries and Diseases Act (COID), Life Healthcare encourages employees to be actively involved in occupational health and safety through its quality processes. All new employees receive quality, health and safety, and environment induction. In addition, employees participate as health and safety representatives and are involved in monthly health and safety committee meetings in line with OHSA requirements. Potentially hazardous conditions are identified and reported on throughout the alert process.

### QUICK FACT

The Careways employee wellness programme usage across the Group is 17.5% (against an industry benchmark of 11.2%). The integrated employee wellness model for the Group was finalised to provide a holistic wellness offering and enhance employee productivity and maintain wellness.

Indicator	2017 target	2017	2016	Year-on-year trend
Employee incident rate (per 200 000 labour hours)	5.13	4.43	3.71	↑

The Group reports on all employee incidents, and identifies trends and key risk areas e.g. employee injuries, needle-stick injuries, employee falls, employee mobility incidents, occupational health-related incidents, infection-related incidents and exposure to bodily fluids. A hazardous biological agents (HBA) risk assessment is conducted every second year (as required by the OHSA), focusing on the identification of risks and mitigation of exposures for employees, relevant service providers and members of the multi-disciplinary team.

The year-on-year employee incident rate increased and is partly related to attempts to achieve 100% reporting. There was an increase in slips and falls, mainly in the operating theatres due to wet floors and working in a confined area. Employee education and safety awareness focuses on these areas to reduce incident rates.



## Sustainability: Doctors

The Group has an association with approximately 2 934 doctors and specialists as well as other healthcare professionals.

### Doctor recruitment and retention

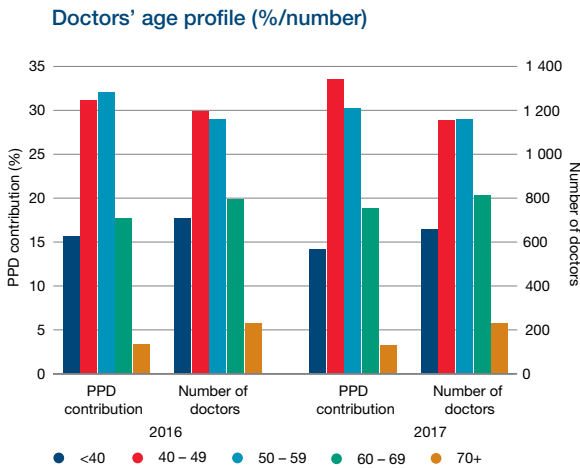
In order to ensure sustainability of our hospital businesses, and to grow in appropriate areas, it is necessary to maintain a stable doctor base that supports an accessible and comprehensive healthcare service in the communities in which they serve. New doctors generally do not immediately generate the same level of activities and revenue as the doctors whom they replace. This is due to time required for practice establishment, influenced by circumstances and often the speciality concerned. This presents mixed opportunities and challenges for the business, and highlights the importance of long-term relationships with doctors to sustain our operations.

We were successful in associating with 148 new doctors to replace the 64 that left due to alternative opportunities, relocation and retirement. Activities and trends among specialists and doctors are monitored at hospital, regional and national levels to identify recruitment needs or other interventions required.

In July 2017, the HPCSA updated its policy on recruitment and granted Life Healthcare special dispensation to employ medical officers for ICU, maternity and accident and emergency units under strict conditions. This potentially improves the Group's ability to influence quality and service levels in these areas of operation.

## PERFORMANCE REVIEW: SOUTHERN AFRICA CONTINUED

Life Healthcare continues to build the doctor stakeholder manager portfolio, whose function is to engage with the hospitals, medical associations, tertiary institutions and doctors to establish a pipeline of specialists for the future. In addition, Life Healthcare provides assistance for training in certain sub-specialties, aligned to current and expected needs.



The average age of our doctors is 51.5 years (2016: 51.2 years), which has increased marginally over time. The average age of new doctors in 2017 was 45 years.

### Clinical efficiency

Phase one of the doctor quality and efficiency reporting programme was completed in June 2017. This targeted 15 Life Healthcare hospitals with the greatest efficiency opportunities. The doctors welcomed the report and made constructive suggestions on areas to enhance. The current data indicates efficiency improvements in the majority of hospitals included in phase one. The second phase, which provides reports to 1 200 clinicians across all our hospitals, was completed in August 2017. These are clinicians who have 120 or more admissions per annum.

### Risk and insurance

The increasing cost of obstetric and neurology insurance remains a key challenge for our doctors, and the increasing incidence of medical malpractice claims continues to significantly impact the industry. Life Healthcare is engaging directly with insurers to deliver the most cost effective insurance options to our doctors. We are working on developing clinical products and programmes that reduce risk, particularly in areas such as obstetrics, where a comprehensive BetterObs programme has been rolled out. Refer to [page 67](#).



## Efficiency: Information technology

The Group continued its IT projects to develop local competencies and effectiveness.

### IT governance

The IT operational performance is monitored and managed daily, with monthly reports via a capacity, availability, performance and security dashboard. Key IT security, software and infrastructure components are reported on against their thresholds and managed accordingly. Severity 1 incidents (with the highest business impact) and security incidents are managed on a high priority basis for resolution. These are reported and managed at various risk management forums. All categories performing outside of the set threshold are actioned and tracked in the daily sessions. Overall, IT achieved satisfactory results for the year, and all projects were delivered with less than 10% variance on the final intended outcomes.

The key areas of focus in 2017 were:

- **IT security strategy:** The IT security strategy is updated annually, and remains a standing topic at the board risk committee and board meetings. Latest threats and corresponding controls are reviewed, evaluated and discussed during these meetings.

### Group IT governance

The board is responsible for overseeing the Group's IT governance and management, and for implementing the structures, processes and mechanisms to execute the IT governance framework. Life Healthcare's board has delegated management of IT to the Group Chief Executive Officer. All IT risks are overseen by the board risk committee, while the board remains responsible for IT overall, including matters of IT security and strategy.

All territories operate on a single governance model, with IT steering committees established in all the territories, reporting into the Group IT steering committee. This committee includes the Group Chief Executive Officer, Group Information Officer, Group Chief Financial Officer and the Chief Medical Officer: Alliance Medical.

- **Information governance:** The implementation of data life cycle planning, data de-identification, encryption, controlled access to data, vulnerability and threat management is in progress via the cybersecurity strategy project. This supports the business strategy for ensuring the highest levels of confidentiality.
- **Outsourced IT infrastructure project:** The ability to recruit skilled people into technical roles remains a challenge. This creates a strong dependency on the outsourcing of key technical skills.

The Group again achieved international ISO 27001 ISMS certification. The findings and recommendations from the review were included on the Group's risk register, and will be monitored by the IT steering committee. The ISO journey facilitates ongoing review of all control processes related to IT security within the business environment.

### IT projects

We modified the Infotech World Class IT Operations model for our use. Life Healthcare ensures ISO 27001 compliance at all times with enhanced local privacy and healthcare requirements.

## QUICK FACTS

Within the information security management system (ISMS) framework, the following IT governance elements are managed:

- Information security, management and privacy
- IT risk management
- Disaster recovery
- IT legislation
- IT audit

Capital expenditure of R89 million (2016: R97 million) was invested in IT systems and applications. Material IT projects linked to the Group's growth and efficiency strategies are highlighted below.

### Projects completed or in pilot phase

- The Impilo e-billing project was completed with national roll-out to all theatres and wards. The system provides real-time, online management of patient processes.
- The new occupational health clinic management system is in its pilot phase at the Meadowdale Clinic.
- The electronic intensive care unit (e-ICU) project is in its pilot phase at Life The Glynwood.
- The strategic supplier relationship management project was to outsource all the South African infrastructure products and services to a single strategic service provider. The data centre was moved to EOH in April 2017 with minimal business disruption.

### Cybersecurity strategy project

This focuses on safeguarding the Group from cyber threats. It requires the implementation of technical and administrative controls according to the Life Healthcare cybersecurity governance framework. It will ensure the necessary controls are in place to comply with the IT component of the Protection of Personal Information Act (PoPI) for South Africa. The requirements phase is completed, and design will commence in the first quarter of 2018.

### Global ERP system

The Group implemented the use of the enterprise software, SAP, in southern Africa, and our billing engine will be operated through the Impilo e-billing project. Pilot testing will start in the second quarter of 2018.

### Vision X

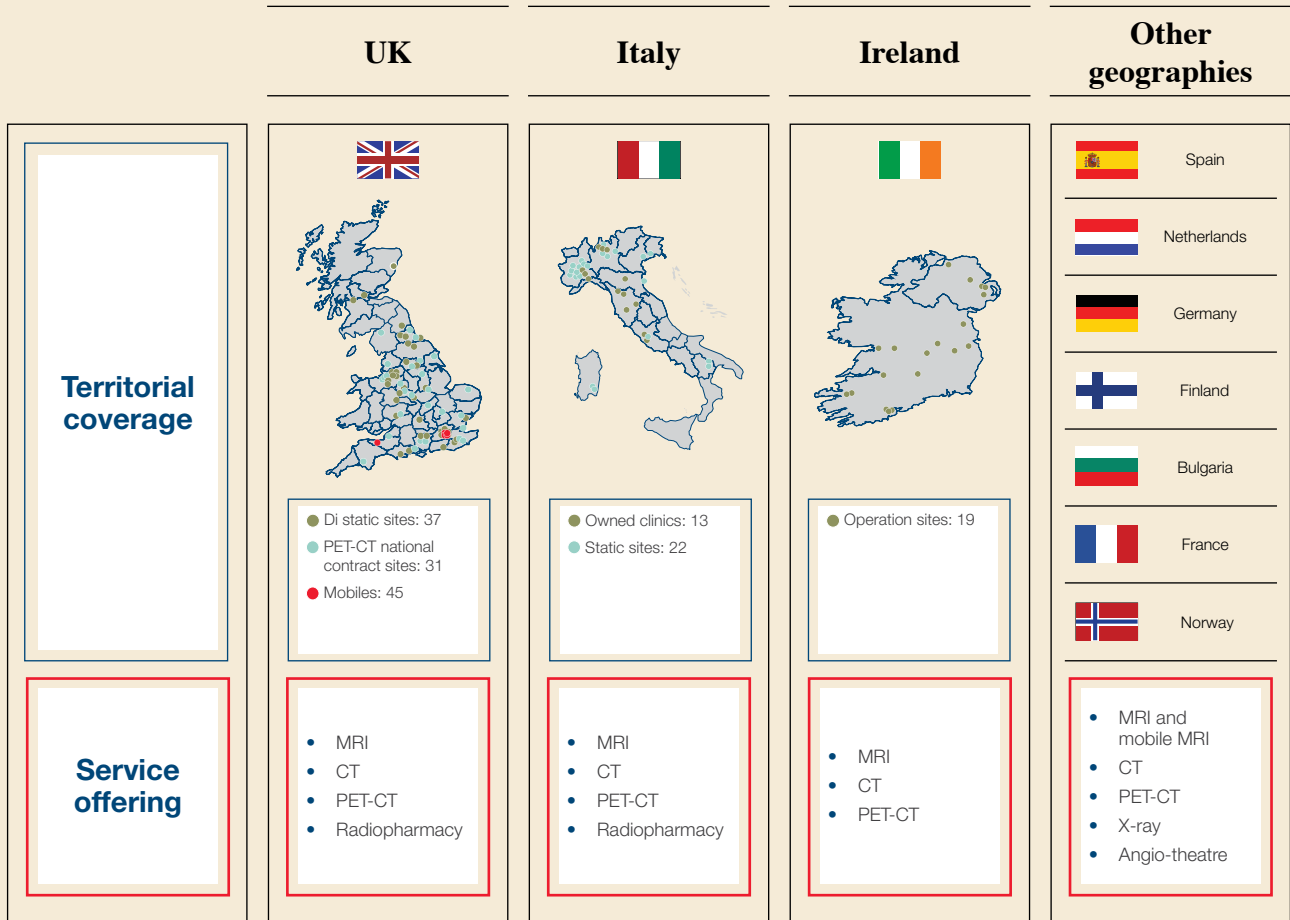
Vision is the HR workflow system used in Life Healthcare. It includes payroll, leave management and other HR-related functions. The system is nearing end of life and has to be upgraded to ensure continued support. Its successor, Vision X, is in the final testing phase with go-live intended for early 2018.

### Key focus areas for 2018

We will focus on implementing a comprehensive cybersecurity strategy project and improving operational alignment to new systems. We will evolve clinical systems into integrated electronic systems that will enhance data analysis and inform business intelligence. Specific focus will be given to evolving our application and explanation of IT governance to King IV standards.

# PERFORMANCE REVIEW: ALLIANCE MEDICAL

The acquisition of Alliance Medical has significantly supported our growth and diversification efforts.



**A**lliance Medical has enjoyed consistent growth for more than 25 years.

**Chief Executive Officer:  
Alliance Medical overview**

The business’s incorporation into Life Healthcare from November 2016 has provided both Life Healthcare and Alliance Medical with improved stability and opportunity to grow with skills and knowledge sharing taking place.

The key financial performance indicators monitored by Alliance Medical at a Group level are revenue, EBITDA and cash generation measured against budget and prior year. At a site level, KPIs vary so as to optimise site level performance and quality across Alliance Medical. The business operates at approximately 200 sites, and consolidation into single metrics is not considered appropriate.

For the financial year ended 30 September 2017, revenue was GBP261 million (2016: GBP233 million) and EBITDA was GBP69 million (2016: GBP62 million), using constant currency rates. Our revenue growth was impacted by higher PET-CT scan volumes and associated radiopharmaceutical sales. In Ireland, performance improvements were driven by the full-year impact of clinic acquisitions and higher volumes across most sites. In the UK the business was adversely impacted by the pricing pressure experienced in the mobile business. Italy benefited from strong performance in static sites as a result of contract extensions and clinics increasing numbers of private patients. Performance in Italy was hampered by lower MRI volumes due to the introduction of the Appropriateness Decree, which has since been reversed.



There is a strong underlying demand for diagnostic imaging services in the markets in which we operate, and the business continues to seek attractive growth markets owing to an under-penetration of imaging services compared to international benchmarks. This is primarily driven by an increasing disease burden globally, ageing populations, increased focus on early diagnosis, and advances in medical technology. Additionally, public sector facilities are characterised by ageing equipment that will need to be replaced or upgraded, supporting demand for Alliance Medical services in long-term partnerships and through more traditional contracting arrangements.



**Guy Blomfield**  
*Chief Executive Officer: Alliance Medical Group*





## PERFORMANCE REVIEW: ALLIANCE MEDICAL CONTINUED

### Principal service offering overview

Alliance Medical generates the majority of its revenue from the provision of MRI, CT and PET-CT services. A summary of Alliance Medical's business capabilities and their primary drivers are provided below.

Principal service offering	Explanation
MRI	<p>Magnetic Resonance Imaging (MRI) is an imaging technique that uses spatially varying magnetic fields and radio waves to produce cross-sectional, two-dimensional and three-dimensional images of organs and internal body structures.</p> <p>The hydrogen nuclei, present in molecules throughout the body, are slightly magnetic. When placed in large external magnetic fields, they can be induced to emit or resonate at specific radio frequency signals. These radio frequency signals are used to construct cross-sectional images of any part of the body, in any plane of view, and offer more detailed information than other modalities, such as X-ray, fluoroscopy and computerised tomography (CT). These scans are used most frequently in neurology, orthopaedic and oncology applications.</p> <p>Alliance Medical operates MRI scanners in clinics, static hospital installations and mobile scanners, generally focused on outpatient procedures.</p>
CT	<p>CT scans emit several simultaneous X-ray beams from varying angles to produce two-dimensional or three-dimensional images of body structures. Tomography is the process of generating a two-dimensional image of a slice or section through a three-dimensional object. Multiple two-dimensional sections can be combined together using tomography to produce three-dimensional images of body structures.</p> <p>A key advantage of CT technology is that it has a smaller installed base and a shorter scanning time than MRI scanning equipment, which makes it ideal as an emergency assessment tool. CT scans are most often used in neurology and oncology applications and are also used by accident and emergency departments to assess injuries and acute medical conditions.</p> <p>Alliance Medical operates CT scanners in clinics, static hospital installations and mobile scanners.</p>
PET-CT	<p>During positron emission tomography-computerised tomography (PET-CT) procedures, a radiopharmaceutical (pharmaceutical drug with radioactivity) is injected into a patient and localises in a specific organ or system within the body. The small amounts of measurable positron radiation that are emitted by the radiopharmaceutical are captured by a PET camera that generates an image of the specific organ or system for the clinician to assess. The image results enable doctors to identify small changes in body tissues at a cellular level by highlighting physiological processes rather than anatomical structures.</p> <p>A key advantage of PET-CT is that this level of molecular imaging allows the identification of cancer and other degenerative conditions such as cardiac and neurological diseases, and identification of the stage to which the cancer or condition has developed. This facilitates early diagnosis and staging of cancer.</p> <p>Alliance Medical's molecular imaging services consist of the provision of PET-CT scans to public health services and other independent organisations through mobile and fixed location scanners across Europe. Services include the manufacture of certain radiopharmaceuticals for use in PET-CT scanning applications.</p>
Radiopharmacy	<p>Radiopharmacy involves the manufacture of radioactive chemicals used in molecular imaging procedures. Radioisotopes are most commonly manufactured in a cyclotron, which is a type of particle accelerator.</p> <p>Alliance Medical owns and operates four cyclotrons in the UK and one in Italy.</p>

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## Primary drivers

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Early diagnosis of diseases and cancer using technologies such as MRI, CT and PET-CT facilitates condition identification for faster, more successful and cost effective treatment. As such, this technology is a priority for many public health authorities.

The PET-CT technology is in widespread use in the rest of Europe, and the UK is developing a multiple lot procurement programme through the NHS that will specifically address the lack of PET-CT availability in the UK. The NHS provides the majority of all PET-CT scans in the UK.

Radiopharmacy supports the high demand of molecular imaging services performed by the business. Alliance Medical also sells radioisotopes commercially to other PET operators and for use in clinical trials.

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## PERFORMANCE REVIEW: ALLIANCE MEDICAL CONTINUED

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### Growth

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#### Performance review

In May 2017, the Life Healthcare board approved Alliance Medical's acquisition of Life Radiopharma Group (previously Eckert & Ziegler) for EUR13 million (including debt of EUR6 million). The acquisition created Europe's largest integrated radiotracer supply and imaging organisation. It extended Alliance Medical's molecular imaging presence in Europe and supplements our PET-CT scanning services and radiopharmacy facilities.

The acquisition of the Albaro clinics business in Italy took place in December 2016 for EUR7 million. This acquisition further enhances Alliance Medical's service provision to public and private patients in Genoa, Northern Italy.

The UK business acquired Direct Medical Imaging in August 2017 for GBP3.5 million. This acquisition supplements the UK's existing service offering. Alliance Medical continues to work on the development of NHS partnership solutions in the UK.

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### Quality: Clinical governance

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Alliance Medical operates across western Europe. Although each of the geographies is responsible for determining and monitoring indicators relevant to their operations, a business-wide clinical governance framework is utilised with the following characteristics:

- Providing effective operational risk management according to a prescribed process. This ensures that all aspects of clinical risk are managed appropriately.
- Same-day escalation of serious untoward incidents from clinical governance teams to the Country Medical Director. The Country Medical Director informs the country board and the Chief Medical Officer: Alliance Medical. The Life Healthcare operational board is appraised of material incidents.
- Monitoring of introductory, corrective and preventive actions following potential or actual serious untoward incidents.
- Introducing guidelines, policies and procedures to avoid repeat errors.
- Continuously improving corporate quality and service.
- Ensuring systems and processes are sufficient to maintain patient safety with necessary understandable patient information.

Each of our geographies measure patient satisfaction levels and complaints, and generate reports required for reportable incidents in their respective country. Our geographies record contract or customer-specific metrics as required and operational metrics for efficiency analysis.

An effective integrated governance and risk management framework exists across Alliance Medical which seeks to ensure that the quality of services provided to patients is continuously improved, the highest standards of care are safeguarded, and an environment is created in which clinical excellence is continually promoted. We continually strive to ensure that appropriate mechanisms to support this are in place, including:

- **Standard setting:** Comprehensive policies and standard operating procedures are in place at corporate and unit level.
- **Audit:** A comprehensive audit programme ensures that departments and units follow key policy directions and meet legislative and regulatory requirements.
- **Licensing and registration:** Strategies to monitor and ensure compliance with the legal, statutory and regulatory requirements.
- **Incident reporting:** All incidents are recorded, trended and reviewed at a national and regional level, and all serious incidents are reported within 24 hours and a root cause analysis is undertaken.
- **Risk register:** Maintenance of an integrated corporate risk register which identifies key risks at a national, regional and local level and complements the other systems that are in place.
- **Clinical and other quality indicators:** A comprehensive range of clinical and other quality indicators are collected and analysed at Company level including, but not limited to:

- Patient satisfaction rates: We are committed to providing the highest quality of service to our patients. All feedback is welcomed and is used actively to improve what we do and the way in which we do it.
- Propensity to recommend our services to friends and family: 95% of patients would recommend us to their friends and family.
- Patient complaints: We recognise that at times, we might fail to meet patients' individual expectations. Patients may experience a standard of care lower than they expected and may wish to raise their concerns to help to improve our service. We are committed to

listen to their concerns and provide a full and appropriate response.

- Image quality audit.
- Turnaround times: We are committed to continually reviewing and improving our turn-around times, striving to be efficient while maintaining patient choice and convenience.
- Radiology clinical audit: A clinical audit of radiology reports is performed, with a 10% random sample submitted to audit with quarterly reports sent to individual radiologists comparing their results to the national mean.



## Efficiency: Procurement

Each geography in Alliance Medical is responsible for their procurement activities. We periodically assess procurement activities centrally to find economies of scale or other benefits that could be delivered via centralised procurement. Centrally-procured products and services include scanners, insurance, and finance and banking services.

In some areas, Group-wide knowledge is leveraged to disrupt the traditional market approaches to obtain better deals. This was most apparent for scanner maintenance where non-original equipment manufacturers (OEMs) were used to encourage OEMs to revisit their service offerings in the market.



## Sustainability: Electricity, water and waste

Electricity, water and waste efficiency measures are recorded on a country-by-country basis as required by local regulation. Radioactive substances are manufactured via cyclotrons and are procured only at sites where these

cannot be produced internally. Waste is managed in line with international waste disposal guidelines and in accordance with local legislation in each of our markets.



## Sustainability: Human resources

Our human resource activities operate in accordance with the relevant local jurisdiction, the local market conditions and local employment requirements. Collectively, Alliance Medical employs 1 715 (2016: 1 633) people, 632 (2016: 617) of whom are clinical and 1 083 (2016: 1 016) non-clinical. In addition, Alliance Medical engages with 604 (2016: 563) self-employed clinical colleagues in Italy where a different clinical delivery model is in operation.

Employee retention, training and development are dictated by country requirements. Alliance Medical operates mandatory and non-mandatory training

programmes in line with regulatory requirements for each region. Regions providing radiopharmacy or PET-CT services comply with the relevant local nuclear medicine/ radiation protection mandatory training requirements.

Diversity statistics are recorded according to local legislation. In the UK for example, new legislation requires gender pay and bonus gaps to be reported effective from 6 April 2017. 2017 also saw the UK business comply with the requirements of the NHS Workforce Race Equality Standard which will be extended to incorporate disability statistics from 2018.

## PERFORMANCE REVIEW: ALLIANCE MEDICAL CONTINUED



### Sustainability: Health and safety

**T**he health and safety of our employees is of paramount importance.

We have adopted health and safety policies that comply with applicable health and safety legislation, including the UK Health and Safety and Work Act of 1974, and the UK Health and Social Care Act of 2008. Alliance Medical has a health and safety committee to ensure compliance with these laws. In addition, the business employs third-party consultants, where appropriate, to provide advice and guidance to the business. This includes independent advice regarding health and safety laws and ways to improve Alliance Medical's health and safety policies and procedures.

In our UK geography, there is mandatory online training for certain aspects of health and safety including manual handling and fire risk. We adhere to legislation covering video display usage, eye tests and radiation exposure monitoring for radiopharmacy employees.

#### Stakeholder engagement

Stakeholder management is delegated to the country management teams. Group-wide relationships are managed centrally only where necessary, such as with the Molecular Imaging Collaborative Network (MICN), a partnership between Alliance Medical, "the Christie", NHS hospitals, patient representatives, academic centres, charities and commissioners. The partnership has a shared purpose of improving cancer survival rates and is widely acknowledged as an exemplar of how the independent sector supports the future of the NHS.

The top concerns and expectations of all key stakeholders is that Alliance Medical continues to provide service excellence and innovative imaging techniques to improve patient care while operating in line with the legal and regulatory requirements of the countries in which we operate. For customers, the delivery of these services should be cost effective, and provided in line with contracts. For patients, the key concern is rapid access to scanning services, at a time that suits them, with good levels of care.





# PERFORMANCE REVIEW:

## POLAND

**S**canmed focused on consolidation and strategic improvements to appropriately position the business for the evolving opportunities provided by the Polish government.



**T**he Scanmed business has faced several major challenges, materially impacting operational performance.

### Chief Executive Officer: Scanmed overview

Poland's macroeconomics remain strong with GDP growth of circa 3.9% forecasted for 2017. The country has an unemployment rate below 7%, which is expected to drop further. Strong macroeconomics and consistently growing demand for high quality healthcare services provides a positive outlook for the private operators in Poland.

The most significant challenge was the Narodowy Fundusz Zdrowia's (NFZ) substantial reduction in tariffs for publicly funded procedures, which significantly affected our cardiology segment, which makes up 45% of Scanmed's NFZ revenues. Scanmed is undergoing an optimisation process in order to minimise the negative impact of tariff reductions. Cardiology was expected to contribute more than 60% of consolidated EBITDA, but only contributed 13.5%. Two reductions in tariffs (occurred on 1 July 2016 and 1 January 2017) negatively impacted our EBITDA by PLN30 million.

The public healthcare system underwent major reform in 2017, raising concerns about the availability of NFZ financing for Scanmed and in turn, the long-term sustainability of some of our operations. The outcome of this reform is positive for the Group as Scanmed is one of the biggest private operators to benefit from public financing. Both multi-disciplinary hospitals (St. Raphael and Blachownia hospitals with five cathlabs) joined the government's Countrywide Hospital Network and were granted public financing contracts for the following four years. As at 30 September 2017, 85% of the budgeted Group NFZ revenues were secured.



NFZ tenders for the provision and funding of ambulatory (outpatient) procedures will be held in the first quarter of 2018. Taking into consideration that public financing is stable and secured; our main focus area is to grow commercial revenues substantially. Currently, the split is approximately 75% public compared to 25% private funding; however, we are taking measures to rebalance this by leveraging Scanmed's core healthcare competences and grow our market share with organic and acquisition initiatives.

Several turnaround activities are taking place in our business, including major cost savings, integration and increase of operational efficiency. Completion of the integration with Life Healthcare is planned for mid-2018.



**Hubert Bojdo**  
*Chief Executive Officer: Scanmed S.A.*



## PERFORMANCE REVIEW: POLAND CONTINUED

### Performance review



#### Growth

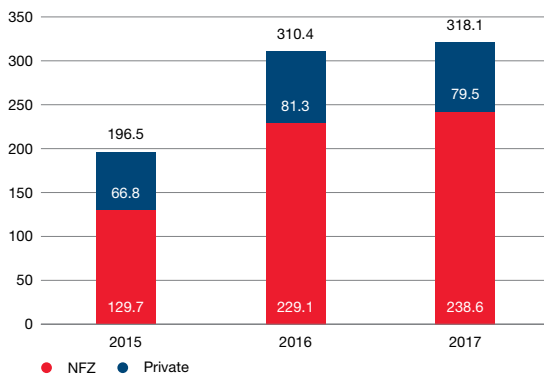
#### Beds, units and facilities

Category	2017	2016	2015
Beds	624	624	334
Cardiac units	12	12	7
Medical facilities	40	40	36

Scanmed has added no additional beds, cardiac units or facilities in the year, favouring operational improvements and rationalisation over physical growth. This cautious approach was adopted so that the business could effectively review the outcome of contracting and tariff changes being implemented by the NFZ during the year.

#### Revenue diversification

Revenue source (PLN'million)



Scanmed's revenue increased by 2.5% on a constant currency basis, however, due to the weakening Polish Zloty Scanmed's revenue on a Group basis decreased by 6.7%, when translated to the Group's reporting currency. Through our high quality medical services and reporting, we have secured a majority of public contracts to sustain revenue for the next four years.

Bearing in mind that public funding is limited, our main focus area is to increase commercial services. Dynamic growth of private healthcare creates opportunities for further development which Scanmed intends to benefit from.

## QUICK FACTS

#### Acquisition timeline

##### FY2014

- April 2014: 80.7% of Scanmed (including Webolit)
- June 2014: 100% of Gastromed

##### FY2015

- October 2014: Increased investment in Scanmed to 100%
- October 2014: 100% of Sport Klinika
- November 2014: 100% of Kliniki Kardiologii Allenort (KKA)
- June 2015: 49.93% of Carint Scanmed

##### FY2016

- October 2015: 100% of Gastromed REM
- October 2015 and January 2016: 100% of Polska Grupa Medyczne (PGM) and Raciborskie Centrum Medyczne (RCM)
- November 2015: 100% of Multimedycyna
- April 2016: Remaining 50.07% of Carint Scanmed



## Quality: Clinical governance and quality

The business's quality management system (QMS) is certified according to the requirements of the following international standards:

- ISO 9001:2008, Quality Management System
- ISO 27001:2014 Information Security Management System
- ISO 31000:2009 Risk Management

Due to a focus on accreditation standard improvement at two hospitals and compliance with new data protection laws, the business chose to waive further certification for the requirements of the following international standards:

- ISO 14001:2004 Environmental Management Systems
- ISO 22000:2006 Food Safety Management Systems
- EN 18001:2004 Health and Safety Management Systems

The business continues to operate within the legal requirements of the aforementioned areas.

The QMS is verified and validated by the results of cyclical internal and external audits and monthly monitoring and measurement.

A new act on quality and patients' safety is expected to be implemented in 2018. The act will presumably impose certain obligations on managerial employees for quality monitoring, but also provide for additional ways of obtaining extra funding if specific criteria are met. Scanmed continues to monitor developments for opportunities and compliance requirements.

In December 2016, Scanmed was subjected to a comprehensive external audit by the international certification bodies Bureau Veritas and IMQ Polska. The business received a positive recommendation and renewal of its ISO 9001:2008 certificate for another year. In May 2017, Scanmed's St. Raphael Hospital received positive feedback from the Accreditation Board for the second consecutive year, with the accreditation period being extended for a further three years.

We will introduce an electronic process monitoring and measurement system that will act as a detection system to improve quality care. The business aims to complete implementation of corporate medical standards at units across the country to ensure a uniform approach and comprehensive supervision. Another key project is the design and effective implementation of consistent management standards within outpatient medical centres. The goal is to implement a comprehensive system for monitoring and measuring the effectiveness of outpatient procedures.

Scanmed is reviewing further integration prospects with Life Healthcare including its IT, quality, human resources and finance divisions. We established an integration committee in July 2017 to manage the integration process for the next 12 months.

### Clinical indicators

Scanmed continues to set thresholds for individual measurement areas to ensure proper detection in case of unacceptable results in our quality of care. Our clinical indicators are aligned to the requirements set by the Polish Minister of Health and remain unchanged. This requires the periodic monitoring and analyses of the certain indicators of functioning in hospitals.

Indicator	2017 %	2016 %	Year-on-year trend
Reoperations	<b>0.54</b>	0.40	↑
Readmission	<b>1.24</b>	1.34	↓
HAI	<b>0.85</b>	0.58	↑
Bedsore	<b>0.22</b>	0.13	↑

One of the main reasons for the year-on-year movements in the table above is the inclusion of the multi-specialist hospital in Blachownia in reporting, effective in 2017. Another reason is an increased level of awareness through improved reporting among medical employees.

## PERFORMANCE REVIEW: POLAND CONTINUED



### Efficiency: Procurement

After tariff reductions in cardiology and orthopaedics implemented by NFZ, renegotiations of medical materials with key suppliers began. We targeted the direct costs associated with the procedures performed in various cathlabs including equipment and consumable costs. Expected annualised savings amount to PLN4 million.

We have optimal pricing levels and terms of trade with key suppliers, and the business's procurement team continually monitors opportunities to generate savings and efficiencies to support positive revenue margin increase.



### Sustainability: Human resources

Scanmed employs 3 345 (2016: 3 651) employees and contractors, 2 515 of whom are on permanent contracts. Scanmed employs 1 317 physicians.

Employee turnover rate for 2017 was approximately 2% due to the administrative reorganisation and optimisation of headcount cost processes.

## QUICK FACT

The main challenge for healthcare in Poland is a lack of key skills, especially among specialists. The number of doctors per 1 000 inhabitants in the European Union was 2.3 in 2016, compared to the European average of 3.3 (2015: 3.3 and 2014: 3.5).

#### Feedback on the 2017 focus areas:

**Analysis of available and required resources in all Scanmed companies**

**Assessment and implementation of best human resource practice**

**Review of employee remuneration and implementation of a salaries grid**

**Establishment and implementation of long-term development programmes and career paths**

Scanmed is implementing a new organisational structure with the optimum number of positions.

The business is integrating and implementing HR management standards used by Life Healthcare. Another focus is optimising work processes through the introduction of new IT tools to enhance work efficiency.

Scanmed is using assessed position descriptions and market remuneration analyses to create a uniform remuneration system. Plans are being developed to introduce incentive schemes for physicians to enhance their performance.

We intend to introduce career development paths as part of the integration of the Life Healthcare HR management standards. This was deferred to 2018.

A further priority is to improve operational accountability and management. This includes decentralisation of certain levels of decision-making and giving more responsibility to mid-level managers to aid efficiency. It is equally important that we improve the efficiency of the business by automating and streamlining internal processes and adapting employees' competence profile to the current needs of Scanmed.

# CORPORATE SOCIAL INVESTMENT





# CSI GOVERNANCE AND OVERSIGHT

Life Healthcare's corporate social investment (CSI) programmes continue to provide value to communities in which it operates and in which our employees reside. The Group provides monetary contributions and delivers programmes that drive sustainable change through health related, community upliftment and education (training and research) projects.

Life Healthcare's CSI steering committee is mandated to allocate funds to approved projects which are focused on health and education. The committee is chaired by the Marketing and Communications Executive: South Africa and comprises of six other executive members. Corporate social investment activities are reported monthly at the executive management meetings and quarterly to the board social, ethics and transformation committee.

## Key focus areas for 2017

### *Cataract Surgery*

Since 2006 our supporting ophthalmologists have undertaken pro bono cataract surgery in a bid to reduce the state sector cataract backlog. To date 1 313 pro bono cataract surgeries have been performed in Life Healthcare hospitals.

### *Operation Healing Hands*

Operation Healing Hands is a Section 21 company formed by a group of doctors in private practice to undertake pro bono surgery. Life Healthcare supported the International Mandela Day activities of Operation Healing Hands by sponsoring theatre time and the ICU and hospital ward

## QUICK FACT

A total financial contribution of **R43.0 million** was allocated to CSI (2016: R68.9 million).

stays for a group of underprivileged patients receiving surgery. The surgeries were performed by a team of 10 surgeons and anaesthetists at Life Eugene Marais Hospital and Life Groenkloof Hospital in Pretoria. Doctors volunteered their time to perform these surgical procedures.

### *3D Printed mandibles*

Life Healthcare partnered with the Centre for Rapid Prototyping and Manufacturing (CRPM), the innovation and technology department of the Central University of Technology (CUT), Free State in a corporate social investment project called "Changing Faces – Changing Lives". The project uses 3D-printed medical implants and prosthesis to conduct reconstructive surgery.



## Key projects and initiatives

The table below highlights some of the Group's key projects and initiatives in southern Africa.

<p><b>CSI (foundation spend)</b></p>	<p>The Group established the Life Healthcare Foundation in 2007 to channel and expand the Group's CSI, focusing on registered non-governmental organisations (NGOs) and not-for-profit organisations (NPOs). The foundation's focus reflects the Group's purpose of making life better. The Group has built relationships or partnered with a number of NGOs, supporting specialists, suppliers, academic institutions and the Department of Health adding further impetus to the foundation's various initiatives.</p>
<p><b>Public Health Enhancement Fund (PHEF)</b></p>	<p>This collaboration between the National Department of Health and 23 private healthcare companies aims to leverage funds within the private sector to maximise benefits for priority projects, strengthening the public health system. Life Healthcare pledged a fixed annual contribution over an initial period of three years. Ultimately, it is envisaged that this institutional engagement will assist in shaping a better future healthcare system for South Africa.</p> <p>The initial projects aimed to build human capital capacity to address the challenges of HIV and Aids, and to develop leadership capacity within the public health system.</p> <p>The cumulative value contributed is R31 million (2016: R26 million), which links the contribution to the social economic development pillar of the B-BBEE Act. There are 74 undergraduate medical students in the programme, all of whom are from previously disadvantaged backgrounds.</p>
<p><b>Pro-deo (reduced or no cost to patient)</b></p>	<p>Patients who cannot afford to pay their bills receive reduced accounts or free services, especially for visits to the emergency units. Patients who require emergency treatment are treated irrespective of their ability to pay and referred to the public sector hospitals for further management thereafter.</p>
<p><b>Move it – Moving Matters</b></p>	<p>An age-appropriate, curriculum-based intervention programme for children at primary and high school levels that promotes physical activity to youth at various schools. The programme began in 2014, with annual contributions that will total R2.8 million over a four-year period. R1.2 million was contributed in 2017 (2016: R855 000).</p>
<p><b>Life Healthcare/CMSA sub-specialist bursaries</b></p>	<p>The Group committed R78 million over six years (2013 – 2019) to sponsor doctor sub-specialist training, which takes between two and three years to complete. Since 2013, a total of 22 sub-specialists have completed their training. Further candidates were identified to commence training in 2018.</p>

Scanmed's CSI actions include inter alia:

- Scanmed supports the Foundation Mam Marzenie, which is a non-governmental organisation that supports children and young people with serious and life-limiting conditions, to fulfil a personal dream.
- Preventative screenings were performed at 33 different locations for more than 540 people, free of charge. Screenings include prostate disease, lung and eye disease, orthopaedics, gynaecology and urology, dietetics, diabetology. These screenings are performed for indigent patients.
- Support is provided to AGH University of Science and Technology through an adaptation program and various preventative medical interventions for students and university staff, all of which are free of charge.
- The business is a partner of the fifth edition of the Leadership Program for Health Care, organised by the Foundation Leslaw A. Paga, an education support organisation. The program is aimed at students in medical universities in Poland. This year's programme was attended by more than 600 students with three ultimately being incorporated as trainees.

## Key focus areas for 2018

Pro bono surgery to indigent patients will be the key focus for 2018, following the increased requests from supporting specialists.

# GOVERNANCE AND REMUNERATION

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# CORPORATE GOVERNANCE OVERVIEW

**T**he board is accountable for the sustainable and ethical operations of Life Healthcare through sound governance practices.

## Governance structure and board composition

### Governance structure

The board sets the strategic objectives of the Group, determines investment policy and performance criteria, and delegates the detailed planning and implementation of policies to management in accordance with the appropriate risk parameters. The board monitors compliance with policies and performance against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

The board considers matters of strategic direction, significant acquisitions and disposals, and approves major capital expenditure, financial statements and other material matters. Board members are encouraged to debate and challenge matters in an atmosphere of mutual respect and cooperation.

The role of the board is regulated in a formal board charter, which defines its authority and power. In accordance with its charter, the responsibilities of the board include:

- acting as a focal point for and custodian of corporate governance;
- identifying key performance and risk areas;
- ensuring the Group's strategy will result in sustainable outcomes;
- considering sustainability as a business opportunity that guides strategy formulation;

- approving the Group's strategy and annual business plans;
- ensuring that the Group's ethics are effectively managed;
- the governance of risk;
- overseeing IT governance and cybersecurity;
- assessing the impact of the Group's business operations on the environment; and
- approving and adopting Group policies, programmes and procedures in relation to health, safety, economic, social and environmental impacts, and remuneration and benefits.

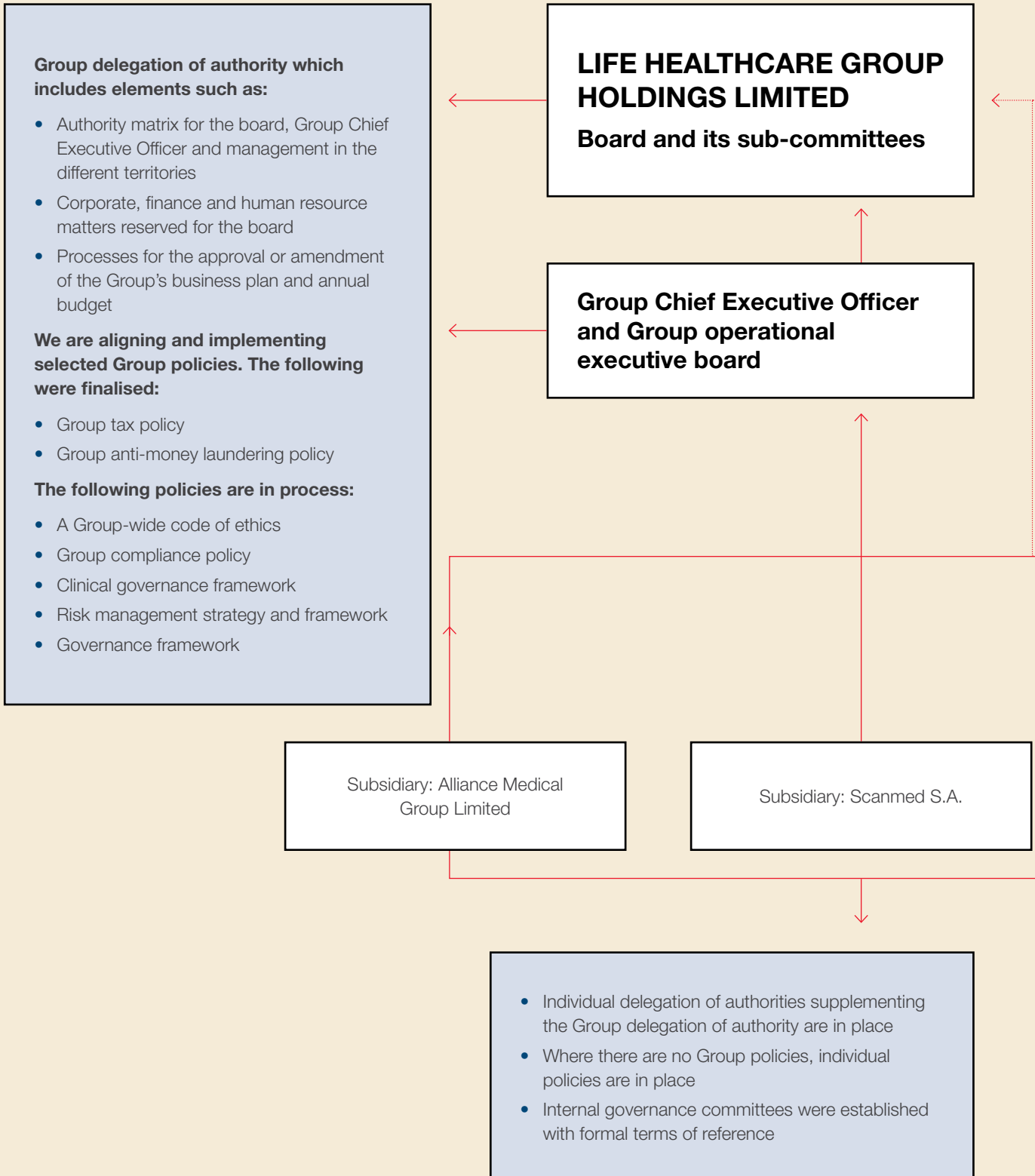
The governing body is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.

Life Healthcare has a unitary board of directors and various board sub-committees as shown in the diagram that follows. The board created sub-committees to enable it to discharge its duties and responsibilities properly and to fulfil its decision-making process effectively. Each committee acts with appropriate terms of reference. Board committees may take independent professional advice at the Group's expense when necessary. While retaining overall accountability, the board has delegated authority to the Group Chief Executive Officer to manage the day-to-day affairs of the Group. The Group Chief Executive Officer is supported by the Group operational executive board<sup>1</sup>.

<sup>1</sup> On 1 July 2017, the Group executive management committee was changed and restructured to the Group operational executive board (page 102).

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

The following governance structure and decision-making processes are in place to manage and oversee all the businesses in the Group and to ensure that the interests of its stakeholders are protected.



The chief executive officers of southern Africa, Alliance Medical and Scanmed provide input into and attend the annual board strategy session.

Feedback on each of the territories' performance is provided at all the board meetings by the Group Chief Executive Officer.

The Group is developing the ERM process to apply across the Group. It will ensure that risk management is embedded in the culture of the Group and provides assurance of the effectiveness of risk management to the board and the executive management. The Group's combined assurance model would be improved to support the implementation of this process throughout the business.

Joint venture: Max Healthcare Institute Limited

The Group Chief Executive Officer or Group Chief Financial Officer and the Group Strategy and Investor Relations Executive serve on the board and the various sub-committees.

Subsidiary: Life Healthcare Group Proprietary Limited

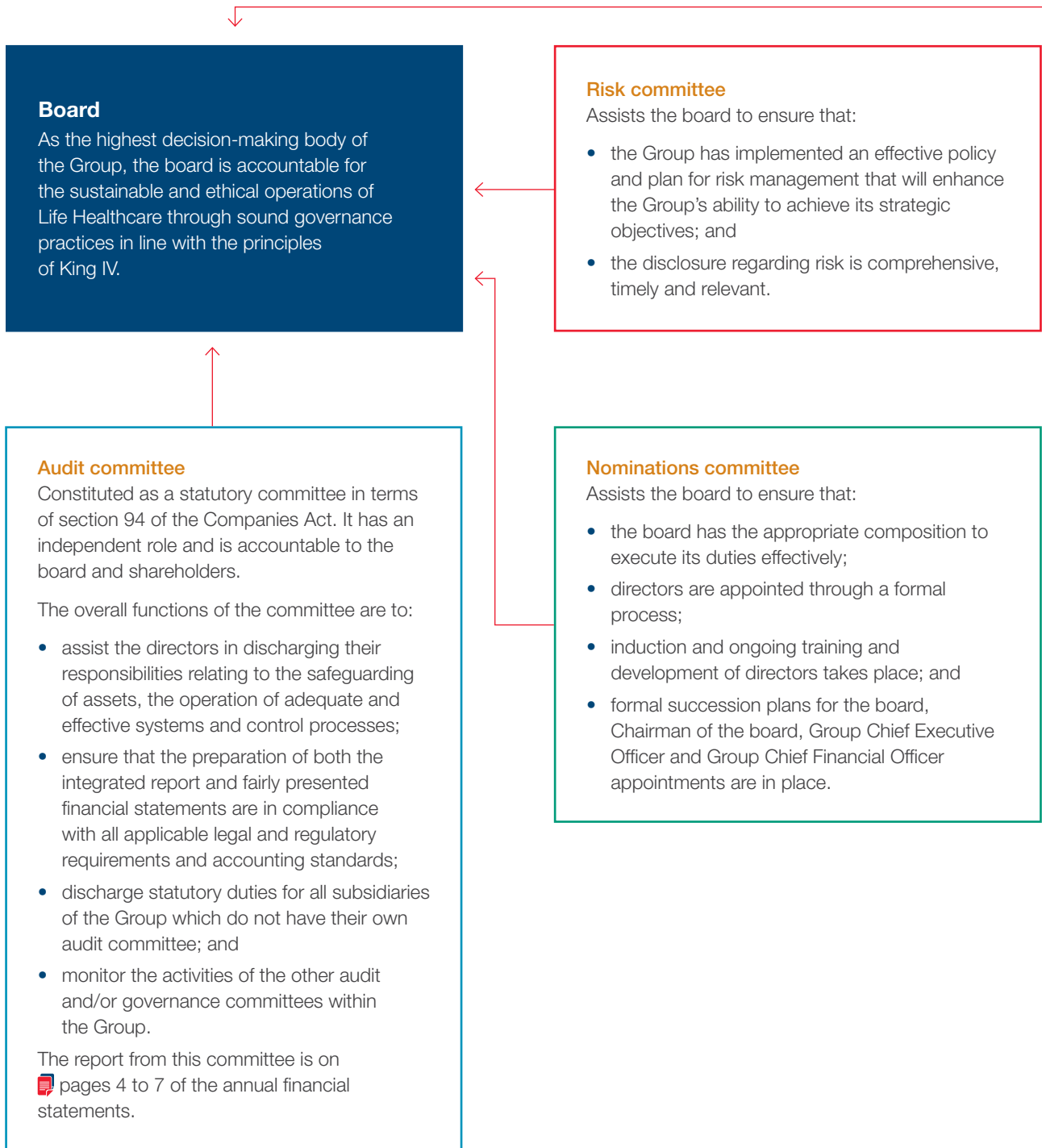
**The following Group operational executive board members serve on the subsidiary boards:**

- Alliance Medical: Group Chief Executive Officer, Group Chief Financial Officer, Group Strategy and Investor Relations Executive, Chief Executive Officer: Alliance Medical, Chief Medical Officer: Alliance Medical and Chief Financial Officer: Alliance Medical
- Scanmed: Group Chief Executive Officer, Group Chief Financial Officer, Group Strategy and Investor Relations Executive, Chief Executive Officer: Scanmed and the Group Chief Information Officer
- Southern Africa: Group Chief Executive Officer, Group Chief Financial Officer, Chief Executive Officer: Southern Africa, Chief Financial Officer: Southern Africa and Business Operations Executive: Southern Africa



# CORPORATE GOVERNANCE OVERVIEW CONTINUED

## Board committees



#### **Investment committee**


Assists the board to ensure that material matters that may affect the Group's strategy, financial health or shareholder value are identified and discussed, and, where appropriate or required, recommendations on these matters are made to the board.

#### **Remuneration and human resources committee**

Assists the board to ensure that the Group has a clearly articulated remuneration philosophy and human resource strategy that supports the strategic objectives of the Group.

#### **Social, ethics and transformation committee**

The social, ethics and transformation committee is constituted as a statutory committee in terms of section 72(4)(a) of the Companies Act, and its main purpose is to ensure that the Group is and remains a good and responsible corporate citizen.

The committee ensures that Life Healthcare's reputation is safeguarded by monitoring the Group's actions and impacts on the environment, consumers, employees, communities and other stakeholders. The report from this committee is on  page 150.

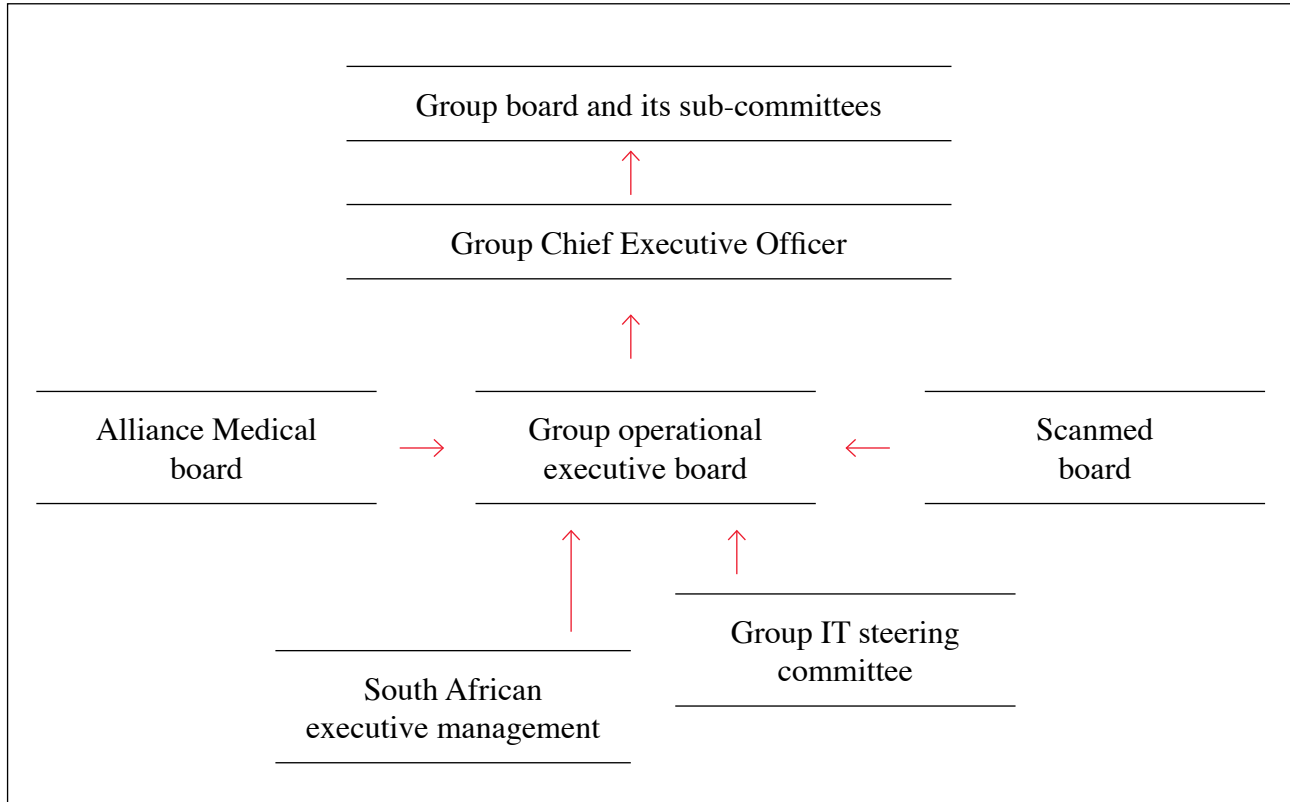
#### **Clinical governance, quality and safety committee**

Established on 11 May 2017, the committee's role is to assist the board to ensure that:

- external oversight of the Group's clinical governance arrangements and country-specific regulatory compliance is in place. Its role is also to provide assurance that there are appropriate measures in place to monitor clinical quality, patient safety and patient experience throughout the Group;
- the quality of services provided to patients is continuously improved, the highest standards of care are safeguarded, and an environment is created in which clinical efficiency and excellence is promoted, and innovation and research rewarded; and
- an accurate reflection of existing clinical risks, key controls, assurances, and action plans to deliver against gaps in assurance exist.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Executive structure



#### Group operational executive board

The Group Chief Executive Officer and Group Chief Financial Officer have monthly performance reviews with all territories' chief executive officers and the relevant executives to obtain feedback relating to key initiatives and agreed KPIs. The Group operational executive board meets quarterly to discuss the overall performance of the business (financial and quality/clinical), progress on strategic initiatives and top risks by territory. Governance matters and investment committee-related items are also dealt with.

A Group IT steering committee, as a sub-committee of the Group operational executive board, is in place to deal with IT-specific operational, risk and investment matters from a Group perspective.

#### South African executive management

The South African operations are managed by the southern Africa executive management team. They report to the Chief Executive Officer: Southern Africa who serves on the Group operational executive board.

The southern Africa executive management meets monthly to consider progress relating to key strategic initiatives, performance of the territory (financial and quality/clinical), governance matters, and key operational initiatives and challenges.

#### Alliance Medical

The Chief Executive Officer: Alliance Medical reports to the Group Chief Executive Officer and serves on the Group operational executive board. Alliance Medical is operationally managed through individual countries'

management teams with the appropriate oversight. Monthly country board meetings are held where the operational and financial performance is discussed. These discussion packs are circulated to Group executives.

The Alliance Medical board of directors is chaired by the Group Chief Executive Officer and includes the Group Chief Financial Officer, Group Strategy and Investor Relations Executive and the Chief Executive Officer: Alliance Medical, Chief Financial Officer: Alliance Medical and Chief Medical Officer: Alliance Medical. The Alliance Medical board operates within the ambit of the shareholders' agreement and the articles of association, and normally meets quarterly in the UK. These meetings focus on progress relating to key strategic initiatives, the performance of each territory (financial and quality/clinical), governance matters and key operational initiatives and challenges.

### Scanmed


The Chief Executive Officer: Scanmed reports to the Group Chief Executive Officer and serves on the Group operational executive board. In accordance with the Polish Commercial Code, the Scanmed business is managed by the management board chaired by the Chief Executive Officer: Scanmed. The managing board reports to the subsidiary board comprising the Group Chief Executive Officer (chairman), Group Chief Financial Officer, Group Strategy and Investor Relations Executive and the Group Chief Information Officer. The subsidiary board meets quarterly in Poland, and an annual general meeting takes place in accordance with the Companies Act (Poland).

The managing board operates within the delegation of authority framework approved by the subsidiary board.



## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Board composition

The composition of the board reflects an appropriate balance between executive and non-executive directors. The board's and executive management members' biographies supplementary report includes a brief biography of each director and is available online at [www.lifehealthcare.co.za](http://www.lifehealthcare.co.za). 

## NON-EXECUTIVE DIRECTOR



**MA (Mustaq) Brey (63)**  
*Chairman*

Appointed to the board – 28 November 2003  
Appointed Chairman – February 2013  
South African  
*BCompt (Hons), CA(SA)*

## EXECUTIVE DIRECTOR



**PP (Pieter) van der Westhuizen (46)**  
*Acting Group Chief Executive Officer and Group Chief Financial Officer*

Appointed to the board – 1 June 2013  
South African  
*BCom (Acc), CA(SA)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS



**PJ (Peter) Golesworthy (59)**  
*Lead independent non-executive director*

Appointed to the board – 10 June 2010  
British  
*BA (Hons) (first class), Accountancy Studies, CA*



**Prof ME (Marian) Jacobs (69)**

Appointed to the board – 1 January 2014  
South African  
*MBChB (UCT), Diploma in Community Medicine (UCT), Fellowship of the College of South Africa (with paediatrics)*



**AM (Audrey) Mothupi (47)**

Appointed to the board – 3 July 2017  
South African  
*BA (Hons), (PolSci), Trent University, Canada*



**JK (Joel) Netshitenzhe (60)**

Appointed to the board – 30 November 2010  
South African  
*MSc (University of London, School of Oriental and African Studies), PGDip (Economic Principles), Dip (PolSci)*

**Board composition as at 30 September 2017**

**EXPERIENCE**

Healthcare sector  
 Mergers and acquisitions  
 Leadership roles  
 Human resources  
 Governance of risk management  
 International business experience  
 Procurement

**SKILLS**

Finance  
 General business  
 Strategy  
 Medical  
 IT

**EQUITY DIVERSITY**

ACI      White  
**64%**    **36%**

**GENDER DIVERSITY**

Male      Female  
**64%**    **36%**

**TENURE ON THE GROUP'S BOARD**

< 3 years	3 – 5 years	5 – 9 years	> 9 years
<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>



**Dr MP (Malefetsane) Ngatane (63)**  
 Appointed to the board – 25 July 2007  
 South African  
*BSc, MBChB, FCOG*



**ME (Mpho) Nkeli (52)**  
 Appointed to the board – 1 October 2015  
 South African  
*BSc (Environmental Science), MBA*



**Adv M (Mahlape) Sello (55)**  
 Appointed to the board – 3 July 2017  
 South African  
*MA and LLM (Russia), LLB*



**GC (Garth) Solomon (50)**  
 Appointed to the board – 23 March 2005  
 South African  
*BCom, BCompt (Hons), CA(SA)*



**RT (Royden) Vice (70)**  
 Appointed to the board – 1 January 2014  
 South African  
*BCom, CA(SA)*

**Board members that resigned during the year**



**LM (Louisa) Mojela (61)**  
 South African  
 Resigned effective 25 January 2017  
*BCom (National University of Lesotho)*  
 Having served on the board for five-and-a-half years, Louisa resigned from the board as she decided to resign from boards where she has served the longest.




**A (André) Meyer (51)**  
*Group Chief Executive Officer*  
 South African  
 Stepped down effective 30 June 2017  
 After three years as the Group Chief Executive Officer, the board and André mutually decided that he would step down as Group Chief Executive Officer.



## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Group operational executive board composition

The Group operational executive board is responsible for the operational delivery across the Group and the delivery of the combination of benefits of southern Africa, Alliance Medical and Scanmed.

The board and the Group operational executive board's biographies, contained in the supplementary report, include a brief biography of each executive and are available online at [www.lifehealthcare.co.za](http://www.lifehealthcare.co.za). 



**PP (Pieter) van der Westhuizen (46)**

*Acting Group Chief Executive Officer and Group Chief Financial Officer*

Refer board of directors



**CLW (Lourens) Bekker (58)**

*Chief Executive Officer: Southern Africa*

South African  
Industrial Psychology (Hons)



**AM (Adam) Pyle (51)**

*Group Strategy and Investor Relations Executive*

South African  
BCom, LLB



**GE (Guy) Blomfield (49)**

*Chief Executive Officer: Alliance Medical*

British  
BA Hons (Accounting and Finance),  
MSc (Corporate Finance)



**H (Hubert) Bojdo (44)**

*Chief Executive Officer: Scanmed S.A.*

Polish  
MEC, PhD studies, Licensed stock exchange broker and licensed tax advisor



**Dr C (Charles) Niehaus (47)**

*Chief Medical Officer: Alliance Medical*

South African  
MBChB

### **Power, control, support and appointments**

MA Brey, a non-executive director, is the Chairman of the board. In accordance with King IV, PJ Golesworthy is the lead independent non-executive director. The lead independent non-executive director's role includes acting as a sounding board for the Chairman, chairing board meetings in the absence of the Chairman and leading the performance appraisal of the Chairman.

A Meyer, an executive director, was the Group Chief Executive Officer until he, together with the board, decided he would step down effective 30 June 2017. PP van der Westhuizen, current Group Chief Financial Officer, will be the acting Group Chief Executive Officer until Dr Shrey Viranna assumes office on 1 February 2018. Based on representations made by the Group, the JSE granted Life Healthcare a dispensation until 31 December 2017 from the requirements of paragraph 3.84(g) of the JSE Listings Requirements regarding the retention of a full-time position for the Group Chief Executive Officer. The Group is in the process of submitting an application to the JSE for an extension to the dispensation until 31 January 2018.

The roles of Chairman and Group Chief Executive Officer are separate, and there is a clearly outlined division of responsibilities.

Effective control is exercised through the Group Chief Executive Officer, who is accountable to the board through regular reports. Senior executives may attend board meetings as and when necessary to apprise the directors of important events and to develop and implement strategy. This encourages communication and cooperation between the directors and executive management.

The board ensures that no individual has unfettered powers of decision-making and authority, and that shareholder interests are protected. The board considers whether there is an appropriate balance of knowledge, expertise and collective experience among the non-executive directors. The non-executive directors are considered to have the required skills and experience to have objective judgement on matters of strategy, resources, transformation, diversity and employment equity, standards of conduct, evaluation of results and economic, social and environmental policies.

At the Group's expense, directors are entitled to seek independent professional advice to further their duties. All directors have access to the Group Company Secretary, who is responsible for ensuring Group compliance with applicable legislation and procedures.

In compliance with JSE Listings Requirements, non-executive directors do not participate in any share incentive or option scheme of the Group.

### **Appointments and diversity**

Any new appointment to the board involves a formal and transparent process and is a matter of consideration for the full board, assisted by the nominations committee.

The board diversity policy applies to the appointment of new directors and has been taken into account for purposes of succession planning for the board. The nominations committee will make the board appointment recommendations on merit and will consider candidates against objective criteria with due regard to the benefits of diversity, including gender, and the contribution that the candidate will bring to the board. There is an ongoing commitment from the board to strengthen female representation, and preference will be given to female candidates who meet the criteria.

The nominations committee commenced the process for recruiting two independent non-executive directors in April 2017. The process outlined in the policy was applied when considering the shortlist and the appointment of the independent non-executive directors. In addition, an independent party was engaged to conduct reference checks on the shortlisted candidates. The board looks forward to the positive dynamic and contribution that AM Mothupi and Adv M Sello will add to the board's deliberations.

The memorandum of incorporation stipulates that one-third of the board members will retire from office at the annual general meeting and will be eligible for re-election. The directors to retire are those who have been in office longest since their last election or who were appointed during the year. The Group Chief Executive Officer and Group Chief Financial Officer are included in determining the rotation of retiring directors.

### **Delegation of authority**

Life Healthcare has an international, capital intensive business. The strategy, capital and investment budget and plans are approved by the board. In order to control trading activities, it is the board's philosophy that authority and responsibility be delegated to the lowest prudent level, and management is expected to always act in accordance with the Group values formally and informally.

The delegation of authority was revised to provide for the authority levels in all the territories. The board's oversight of Alliance Medical is evolving to ensure continued good governance. Despite these transitions, Life Healthcare is satisfied that the existing framework contributes to role clarity and the effective exercise of authority and responsibilities.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Directors' attendance at board and sub-committee meetings

The board meets quarterly and on an ad hoc basis to consider specific matters as needed. The board and management meet annually to review strategy and agree on focus areas. Where directors are unable to attend board meetings for any reason, every effort is made to communicate their comments regarding the agenda and general items.

Committee	Board	Audit	Re- muneration and human resources	Nominations	Risk	Social, ethics and trans- formation	Investment	Clinical governance, quality and safety <sup>7</sup>	Director to be elected or re-elected
Number of meetings held	8	5	5	3	3	3	13	–	
<b>Chairman</b>									
MA Brey <sup>1</sup>	8			3			12		Yes
<b>Independent non-executive directors</b>									
PJ Golesworthy <sup>2</sup>	8	5		3	3	2	12		
Prof ME Jacobs <sup>3</sup>	6		2		3				
LM Mojela <sup>3</sup>	1	2	2	–		1			
Audrey Mothupi <sup>4</sup>	1	1			2				Yes
JK Netshitenzhe	8				3				
Dr MP Ngatane	8			3		3			
ME Nkeli	8		5			3			
Adv Mahlape Sello <sup>4</sup>	1		1		2				Yes
GC Solomon	8	5	5				13		Yes
RT Vice	8	5	5				13		
<b>Executive directors</b>									
A Meyer <sup>5</sup>	5				1	2	8		
PP van der Westhuizen	8				3	1	12		

<sup>1</sup> Non-executive director: attends all the board sub-committee meetings as an invitee where he is not a member.

<sup>2</sup> Appointed to the social, ethics and transformation committee effective 25 January 2017.

<sup>3</sup> Resigned effective 25 January 2017.

<sup>4</sup> Appointed effective 3 July 2017.

<sup>5</sup> Stepped down as Group Chief Executive Officer and executive director effective 30 June 2017.

<sup>6</sup> Resigned as a member of the remuneration and human resources committee effective 4 July 2017.

<sup>7</sup> The first committee meeting was held in October 2017.

## Board accountability

### Code of ethics

In living our values, the Group has earned a reputation for fairness and ethical behaviour in all its business dealings and processes.

The board is responsible for ensuring that management embeds a culture of ethical conduct and sets the values by which the Group abides. As such, Life Healthcare's code of ethics (the code) commits employees to the highest standards of integrity, ethics and business conduct.

The code is available at [www.lifehealthcare.co.za](http://www.lifehealthcare.co.za). 

Guidance for appropriate behaviour in the Group is based on the code. The code sets out policies and procedures to be followed in all aspects of professional, clinical and business dealings, and establishes a set of standards. It guides employees in their behaviour towards supporting medical professionals, patients, customers, suppliers, shareholders, co-workers and the communities in which the

Group operates. The code also extends to safety, health, security, conflicts of interest, environmental matters and human rights. While common sense, good judgement and conscience apply in managing a difficult or uncertain situation, the code assists in detailing the standards and priorities within the Group. Alliance Medical has an anti-corruption and an anti-fraud policy in place, these will be aligned to the Group code of ethics going forward.

New employees are familiarised with the code as part of their induction. The code is presented to the social, ethics and transformation committee annually where relevant updates are discussed and submitted to the board for approval. No material changes were made to the code in 2017.

A confidential guidance and support hotline, operated by an international auditing firm, provides an independent facility for employees and suppliers to report fraud or any form of malpractice. A policy of non-retaliation protects and encourages people wishing to share their concerns.

The Group maintains a zero-tolerance approach to fraud. Executives and line management are responsible for implementing procedures against fraud and corruption.

In tandem with the code, individuals from Life Healthcare are represented on the South African Nursing Council, and the professional conduct committee that monitors professional misconduct within the nursing profession. Professional employees are encouraged to become members of their professional associations.

### 2017 focus areas

Developed and rolled out proactive ethics-related communication to the business, in conjunction with marketing and communications.

### Monitoring ethics within the Group

The Group's ethics standards, as stipulated in the code, are monitored to track achievement. In the case of non-compliance, appropriate disciplinary action is taken as Life Healthcare responds to offences and aims to prevent their recurrence.

### Business ethics assessment

As part of the 2016 internal audits, a business ethics assessment of Life Healthcare was conducted, covering July 2015 to June 2016. Tangible metrics and evidence pertaining to the promotion, implementation and monitoring of ethics across the Group were examined to evaluate the effectiveness of ethics management. In addition, internal audit conducted an independent survey across the employee spectrum to gauge their perceptions regarding ethics.

The ethics assessment revealed an overall positive outcome. Life Healthcare has sound policies, and the governance structures are designed to support and incorporate ethics considerations as part of the day-to-day management. Responses to potential and real ethical

breaches are prompt and thorough. The employee ethics perception survey indicated a positive overall response, which indicates generally positive leadership affirmation. Improvement areas were identified, including that proactive ethics-related employee communications and ethics training should be consistently applied throughout the Group.

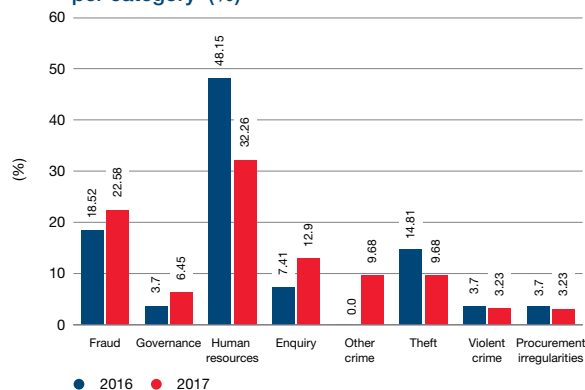
## QUICK FACT

Efficient control compliance, with internal and external audits yielding no material deviations.

### Tip Offs Anonymous

Employees, doctors and suppliers can report suspected irregularities anonymously to an independent service provider. Reported incidents are independently assessed, and where relevant, independently investigated. These incidents are also reported to the audit committee and the social, ethics and transformation committee.

Tip Offs Anonymous number of reports per category (%)



Of all the tip-offs received in the year, the majority were deemed to be unfounded and only two matters remain under investigation.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### 2018 focus areas

- Training on ethics to be standardised throughout the Group.
- Proactive communication on ethics will be continued through print and digital media, including our international businesses.

### Internal controls

We maintain accounting records, and developed systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements. The board delegates responsibility for the adequacy and operation of these systems to the Group Chief Executive Officer. These records and systems are designed to safeguard assets and minimise fraud. The systems of internal control are based on established organisational structures, such as written policies and procedures, which include budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts.

The Group has a key operational processes checklist, and has assigned responsibilities for controls in the processes to relevant employees. Compliance is tested by internal and external audit reviews.

### Internal audit

Internal audit is an independent, objective assurance and consulting function designed to add value and improve the operations of the Group. It assists the Group with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal audit reports administratively to the Group Chief Financial Officer and functionally to the audit committee, and has unrestricted access to its chairman, the Chairman of the board and the Group Chief Executive Officer. A Chief Internal Audit Executive was appointed with effect from 1 December 2017 to provide strategic direction and oversight of all our operations. In May 2017, we appointed EY to provide outsourced internal audit services for the southern Africa operations. In Poland, internal audit is outsourced to Deloitte and the optimal internal audit structure for Alliance Medical is under consideration.

A risk-based internal audit plan is developed and approved by management and the audit committee. Every internal audit assignment is accompanied by a detailed report to management, which includes recommendations for improvement. Significant business risks and weaknesses in the operating and financial control systems are highlighted and brought to the attention of the audit committee, senior management and external auditors.

### Induction and training of directors

It is important that directors are kept up to date with their duties as well as changes in the Group. On appointment, new directors are briefed on their fiduciary duties and responsibilities by executive management. The nominations committee approved an induction policy which includes the requisite reading material and the required exposure to the business. The policy is reviewed annually by the nominations committee. In addition, new directors receive information on JSE Listings Requirements, King IV, the Companies Act and obligations they have to comply with. The Group Company Secretary assists the Chairman with the induction of directors.

Directors are informed of relevant new legislation and changing commercial risks that affect the Group. Board training sessions are linked to board meetings. Presentations relating to, inter alia; NHI, the HMI, and amendments to the JSE Listings Requirements, took place during the year. A King IV gap analysis presentation was also performed.

Directors have full and unrestricted access to management and information when required. Directors are entitled to seek independent professional advice in support of their duties at the Group's expense.

### Independence and conflicts of interest

The Group's nominations committee is responsible for assessing the independence of the Group's directors on an annual basis. Independence is determined according to the Companies Act, JSE Listings Requirements and the recommendations in King IV, which takes into account, among others, the number of years a director has served on the board.

The board was satisfied that all its independent non-executive directors met its independence criteria for the 2017 financial year.

The following non-executive directors have served on the board for longer than nine years:

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**Mustaq Brey**

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Mustaq owns shares in the Company, the value of which is material to his personal wealth, he can thus not be considered to be an independent non-executive director. However, the nominations committee board is satisfied that Mustaq displays objective, unfettered judgement in decision-making and that his objectivity has not been compromised by virtue of his shareholding. Mustaq has served on the board for 13 years and 10 months.

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**Dr Malefetsane Ngatane**

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Despite serving on the board for longer than nine years, the board is satisfied that Dr Ngatane continues to exercise objective judgement in decision-making. In its assessment, the nominations committee confirmed that Dr Ngatane has no interest, position, association or relationship which is likely to influence unduly or cause bias in decision-making. Dr Ngatane has served on the board for 10 years and 2 months.

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**Garth Solomon**

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Despite serving on the board for longer than nine years, the board is satisfied that Garth continues to exercise objective judgement in decision-making. In its assessment, the nominations committee confirmed that Garth's shareholding in the Company is not material to his personal wealth. It further confirmed that Garth has no position, association or relationship which is likely to influence unduly or cause bias in decision-making. Garth has served on the board for 12 years and 6 months.

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Directors are required to avoid a situation where they may have a direct or indirect interest that conflicts with the Group's interests. A conflicts of interest policy is included in the code of conduct and ensures that directors disclose conflicts of interest at every meeting in terms of section 75 of the Companies Act. Directors present an updated list of their directorships and interests to the Group Company Secretary annually, or when a change has occurred.

**Succession planning**

Succession planning is important in ensuring continuity and maintaining the correct mix of expertise on the board. The nominations committee continually assesses the board and its sub-committees' composition. This year the nominations committee, in considering the skills set of the board, was of the view that a board member with significant international experience, in addition to Royden Vice, was required given the Group's increased global presence. It was agreed that this be considered further post appointment of the new Group Chief Executive Officer. The nominations committee reviewed the board diversity policy and it was recommended to the board that no changes be made to the policy.

The board is satisfied with the current board composition for 2017.

**Group operational executive board succession planning**

In September 2017, a remuneration and human resources committee meeting was dedicated to the succession

planning of the Group operational executive board and other key positions in the Group. The succession plan identified emergency successors. Development plans will be put in place for successors where readiness levels of three to five years were indicated. The committee will continue to monitor progress in this regard.

**Board evaluation**

An external evaluation facilitated by the IoDSA was conducted for the 2017 performance evaluation under the auspices of the nominations committee. Based on the results of the appraisal, the board had significantly more areas that performed well, and the overall score was in line with the listed sector benchmark. The appraisal results also highlighted that the board was well balanced in terms of the gender, race and skills, and works well as a team, with different skills prompting a diversity of ideas.

The assessment identified two key focus areas for 2018:

- The recruitment, appointment and onboarding of the new Group Chief Executive Officer and management of the transition and integration of the Group Chief Executive Officer.
- Ensuring that the Alliance Medical Group is well managed from a governance perspective and properly integrated.

The Group operating model meets the requirements of the board's oversight role from a combined assurance, compliance and risk perspective.



## CORPORATE GOVERNANCE OVERVIEW CONTINUED

The prior year's internal board assessment identified three key focus areas:

Focus area	2017 progress
<p><b>The role of the board in stakeholder engagement needs to be more clearly defined</b></p>	<ul style="list-style-type: none"> <li>• The board received regular updates on stakeholder engagements including those in relation to the Life Esidimeni matter and investor roadshows.</li> <li>• Opportunities for the board to interact with stakeholders were provided.</li> <li>• The board continued to receive updates on the HMI and matters related to NHI.</li> </ul>
<p><b>The board's desire to interact more broadly across the Group to gain a better understanding of the operations</b></p>	<ul style="list-style-type: none"> <li>• The induction of the two new directors included a visit to a hospital in the area where they reside.</li> <li>• The members of the investment committee visited selected Alliance Medical sites in the UK and Italy.</li> <li>• The attendance at board meetings and the board strategy sessions has been expanded to include members of the Group operational executive board. The attendance at board sub-committee meetings includes senior management and functional heads. Exposure is also provided to individuals to present at these meetings if this forms part of an individual's development plan.</li> </ul>
<p><b>The implementation of succession planning for the board going forward</b></p>	<ul style="list-style-type: none"> <li>• The nominations committee embarked on a process to ensure appropriate succession planning and, at the 2017 AGM, shareholders approved the consequent amendment to the Company's MOI. The amendment provides that a director, at the annual general meeting following their 70th birthday, shall retire and not be eligible for re-election, unless the nominations committee determines otherwise. This will enable the group to retain board members with valuable knowledge, skills and experience while maintaining continuation on the board. This also provides opportunities for mentoring less experienced board members if required.</li> <li>• The nominations committee ascertained the intentions of individual board members with regard to their tenure on the board and, given the recruitment of the two board members, the committee is satisfied with the current skill sets represented on the board. However, given the Group's international expansion, the committee is of the view that another board member with international experience will enhance the collective skill set of the board.</li> </ul>

### Group Company Secretary

F Patel's role as Group Company Secretary is to guide the board in its duties and responsibilities, keeping directors abreast of relevant changes in legislation and governance best practices. She works with the board to ensure compliance with Group policies and procedures, applicable statutes, regulations and the roll-out of King IV.

She plays an active role in the Group's corporate governance process and ensures that the proceedings and affairs of the directorate, the Group and, where appropriate, shareholders are properly administered. The Group Company Secretary oversees the induction of new directors. She is kept apprised of directors' dealings in

Life Healthcare's shares and ensures that the appropriate disclosures are made in accordance with the JSE Listings Requirements.

In line with King IV and paragraph 3.84(h) of the JSE Listings Requirements, the board assessed the competence, qualifications and experience of the Group Company Secretary through a formal external evaluation process conducted by the Institute of Directors in Southern Africa (IoDSA) under the auspices of the nominations committee. The board is satisfied that the Company Secretary has the requisite qualifications and experience to effectively discharge her duties and maintains an arm's-length relationship with the board and directors.

## Board sub-committees overview

Each sub-committee is chaired by an independent non-executive director. Certain executives are required to attend sub-committee meetings by invitation. External auditors attend the audit committee meetings.

The sub-committees report back to the board at every board meeting, and the minutes of the sub-committee meetings are tabled for noting. Where the minutes are not

available, the chairman of the sub-committee provides verbal feedback, and the minutes are then tabled for noting at a subsequent board meeting.

The role of the board sub-committees is formalised by terms of reference which define their authority and scope. All sub-committee terms of reference were reviewed and amended where relevant. There were no changes in key terms of reference for board sub-committees in 2017 unless otherwise stated.

<b>Audit committee</b>	<p><b>Composition</b></p> <p><i>Chairman</i></p> <ul style="list-style-type: none"> <li>• Peter Golesworthy</li> </ul> <p><i>Members</i></p> <ul style="list-style-type: none"> <li>• Louisa Mojela<sup>1</sup></li> <li>• Audrey Mothupi<sup>2</sup></li> <li>• Garth Solomon</li> <li>• Royden Vice</li> </ul>	<p><b>Key focus areas in 2017</b></p> <ul style="list-style-type: none"> <li>• Poland impairment</li> <li>• Rights offer matters</li> <li>• The Alliance Medical transaction and matters flowing from this such as funding and control on non-audit services</li> <li>• The tax policy, which was adopted for the first time, and the hedge policy</li> <li>• Critical matters namely, the rights issue, debt and covenants</li> <li>• Material judgements from a financial perspective</li> </ul> <p>The committee was satisfied that it had executed its duties during the financial year in accordance with its terms of reference.</p>
<b>Risk committee</b>	<p><b>Composition</b></p> <p><i>Chairman</i></p> <ul style="list-style-type: none"> <li>• Joel Netshitenzhe</li> </ul> <p><i>Members</i></p> <ul style="list-style-type: none"> <li>• Peter Golesworthy</li> <li>• Prof Marian Jacobs</li> <li>• André Meyer<sup>3</sup></li> <li>• Audrey Mothupi<sup>2</sup></li> <li>• Adv Mahlape Sello<sup>2</sup></li> <li>• Pieter van der Westhuizen</li> </ul>	<p><b>Key focus areas in 2017</b></p> <ul style="list-style-type: none"> <li>• Appointment of an independent adviser to assist the committee on IT-related matters.</li> <li>• Cyber risk, particularly in relation to medical devices and equipment</li> <li>• Group compliance strategy</li> <li>• Review of the risk process followed by Alliance Medical</li> <li>• Revised risk appetite and tolerance statements to take account of the different territories that the Group operates in</li> </ul> <p>The committee was satisfied that it had executed its duties during the financial year in accordance with its terms of reference.</p> <p><b>Key changes to terms of reference</b></p> <ul style="list-style-type: none"> <li>• To provide for the committee's responsibility in monitoring management's response to cybersecurity and social media risks</li> </ul>
<b>Nominations committee</b>	<p><b>Composition</b></p> <p><i>Chairman</i></p> <ul style="list-style-type: none"> <li>• Peter Golesworthy</li> </ul> <p><i>Members</i></p> <ul style="list-style-type: none"> <li>• Mustaq Brey</li> <li>• Louisa Mojela<sup>1</sup></li> <li>• Dr Malefetsane Ngatane</li> </ul>	<p><b>Key focus areas in 2017</b></p> <ul style="list-style-type: none"> <li>• Desktop board skills analysis</li> <li>• Succession planning</li> <li>• Process and appointment of two independent non-executive directors in line with the diversity policy</li> <li>• Recruitment of a new Group Chief Executive Officer</li> </ul> <p>The committee was satisfied that it had executed its duties during the financial year in accordance with its terms of reference.</p>

<sup>1</sup> Resigned from the board effective 25 January 2017.

<sup>2</sup> Appointed effective 4 July 2017.

<sup>3</sup> Stepped down as Group Chief Executive Officer and executive director effective 30 June 2017.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Investment committee

#### Composition

*Chairman*

- Garth Solomon

*Members*

- Mustaq Brey
- Peter Golesworthy
- Royden Vice
- André Meyer<sup>1</sup>
- Pieter van der Westhuizen

#### Key focus areas in 2017

- Consideration of the Group's budget
- The acquisition of Alliance Medical
- Rights offer matters including pricing
- Funding strategy
- Acquisitions in South Africa and the cyclotron business in Germany
- Review of the performance of the international operations
- India strategy
- Distribution policy

The committee was satisfied that it had executed its duties during the reporting period in accordance with its terms of reference.

#### Key changes to terms of reference

- To provide for the review of the international operations performance, integration and alignment in the early stages post acquisition.
- The materiality amount was revised from R80 million to R100 million. This amendment was carried through to the delegation of authority document.

### Remuneration and human resources committee

#### Composition

*Chairman*

- Royden Vice

*Members*

- Prof Marian Jacobs<sup>2</sup>
- Louisa Mojela<sup>3</sup>
- Mpho Nkeli
- Adv Mahlape Sello<sup>4</sup>
- Garth Solomon

#### Key focus areas in 2017

- Consideration of the Group's remuneration policy and implementation report
- Reviewing the Group's HR strategy
- Succession planning for executive management throughout the Group
- Approval of the salary mandate
- Impact of the rights offer on the employees share plan and the long-term incentive plan
- Retirement fund matters

The committee was satisfied that it had executed its duties during the financial year in accordance with its terms of reference.

#### Key changes to terms of reference

To provide for:

- the committee's responsibility in approving the HR strategy including reviewing the Group's performance in terms of HR development and retention against internal transformation targets; and
- finalising and making recommendations to the board in respect of key performance indicators for the Group Chief Executive Officer on an annual basis.

Social, ethics and transformation committee

### Composition

*Chairman*

- Mpho Nkeli<sup>5</sup>
- Louisa Mojela<sup>3</sup>

*Members*

- Peter Golesworthy<sup>6</sup>
- Dr Malefatsane Ngatane
- André Meyer<sup>1</sup>
- Dr Nilesh Patel<sup>7</sup>
- Pieter van der Westhuizen<sup>8</sup>

### Key focus areas in 2017

- Consideration of the Group's B-BBEE strategy and progress against the B-BBEE scorecard
- Environmental initiatives and progress against targets
- Code of ethics review and implementation including whistle-blowing arrangements
- Health policy and related legislation
- PoPI roll-out
- Skills development and progress against plan
- Plan to roll-out code of ethics, CSI and environmental reporting throughout the Group

The committee was satisfied that it had executed its duties during the reporting period in accordance with its terms of reference.

Clinical governance, quality and safety committee

### Composition

*Chairman*

- Prof Marian Jacobs

*Members*

- Dr Malefatsane Ngatane
- André Meyer<sup>1</sup>
- Pieter van der Westhuizen<sup>8</sup>

### Key focus areas in 2017

- Governance framework to establish effective reporting to the committee
- Clinical governance processes by territory

<sup>1</sup> Stepped down as Group Chief Executive Officer and executive director effective 30 June 2017.

<sup>2</sup> Resigned from the committee effective 4 July 2017.

<sup>3</sup> Resigned from the board effective 25 January 2017.

<sup>4</sup> Appointed to the committee effective 4 July 2017.

<sup>5</sup> Appointed chairman of the committee effective 25 January 2017.

<sup>6</sup> Appointed to the committee effective 25 January 2017.

<sup>7</sup> Resigned effective 4 March 2017.

<sup>8</sup> Appointed to the committee effective 26 July 2017.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Codes, regulations and compliance

The board is responsible for the Group's compliance with applicable laws, rules, codes and standards. Compliance is an integral part of the Group's culture in ensuring the achievement of its strategy. The Group's board has delegated the implementation of an effective compliance framework to management. Supervision of compliance risk management is delegated to the risk committee, which reviews and approves the arrangements in place to monitor compliance. The Group complies with various codes and regulations such as the Companies Act, the JSE Listings Requirements and King III, and is in the process of rolling out King IV.

In respect of the southern Africa business, a QMS is in place which is designed to ensure compliance with legal

requirements, industry standards and the Company's internal Group requirements across all aspects of its business and operations. Internal quality audits are performed annually at hospitals to assess compliance with legal and industry requirements from an occupational health and safety, environment, quality, and human capital perspective.

In respect of Alliance Medical and Scanmed, there are dedicated legal and compliance resources that actively support business monitoring and provide advice on relevant new laws and dealing with regulators and enforcement action.

There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations or environmental laws.

2017 focus areas	2018 focus areas
<ul style="list-style-type: none"> <li>Approval of a compliance framework for the Group</li> </ul>	<ul style="list-style-type: none"> <li>Commencement of the roll-out of compliance metrics throughout the Group in line with the compliance framework</li> </ul>

### King IV

Life Healthcare endorses and endeavours to adhere to the guidelines and principles of King IV. A King IV implementation report and a gap analysis is available on the Group's website. 

Principle	Application of the principle
<b>Leadership, ethics and corporate citizenship</b>	
<i>Principle 1</i>	<i>Leadership</i>
The board should lead ethically and effectively.	<p>Based on the recent board evaluation conducted by the IoDSA, the performance assessment tested, inter alia, whether the board exercised leadership, enterprise, integrity and judgement in directing the business of Life Healthcare. The board was found to be effective in the afore-mentioned key areas.</p> <p>A code of ethics has been adopted by the board. The code is intended to focus the board and each director on areas of ethical risk, and it fosters a culture of honesty and accountability which all directors ascribe to.</p>

Principle	Application of the principle
<p><i>Principle 2</i> <span style="float: right;"><i>Organisational values and ethics</i></span></p>	
<p>The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	<p>In terms of the board charter, the board discharges its role and responsibilities with due regard to the values that support the central tenets of Life Healthcare's name and brand. In providing the required leadership in terms of establishing and maintaining an ethical culture within the organisation, and to ensure that ethics is managed effectively, the board applies the governance principles contained in King IV and continues to entrench the recommended practices through the Group's governance processes and procedures. There is a code of ethics in place which is applicable to employees and contractors. Adherence to the code of ethics is also incorporated as part of the contractual arrangements with parties in the supply chain. Part of the Group's core values, Quality to the power of e (Q<sup>e</sup>), encompasses ethics to ensure that all business endeavours are conducted within the framework of legal and ethical standards.</p> <p>The board, with the assistance of the social, ethics and transformation committee and the audit committee oversees the management of ethics and monitors the Company's activities to ensure they are in line with the code of ethics.</p>
<p><i>Principle 3</i> <span style="float: right;"><i>Responsible corporate citizenship</i></span></p>	
<p>The board should ensure that the organisation is and is seen to be a responsible corporate citizen.</p>	<p>The board has delegated to the social, ethics and transformation committee the responsibility for monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship.</p>
<p><b>Strategy, performance and reporting</b></p>	
<p><i>Principle 4</i> <span style="float: right;"><i>Strategy, implementation and performance</i></span></p>	
<p>The board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	<p>The board approves and monitors the implementation of the strategy and business plans for each of the territories that the Company operates in. The board, assisted by the risk committee, reviews key risks and opportunities impacting on the achievement of its strategic objectives.</p> <p>The board, in determining strategy, considers the six capitals in directing the Company's inputs and activities towards sustainable and positive outputs and outcomes. The value creation process is set out in the integrated report as well as the Company's performance against its strategic objectives. Information on material matters and risks and opportunities can be found in the integrated report.</p>
<p><i>Principle 5</i> <span style="float: right;"><i>Reports and disclosure</i></span></p>	
<p>The board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects</p>	<p>The board is assisted by the audit committee in reviewing and approving the integrated report. The report is prepared in line with recognised local and international guidelines including International Financial Reporting Standards (IFRS), the International Integrated Reporting Council's (IIRC) Integrated Reporting &lt;IR&gt; Framework, the reporting principles contained in King IV and the JSE Limited Listings Requirements.</p> <p>The integrated report, when read with the annual financial statements, provides a comprehensive view of the Company's performance.</p>



## CORPORATE GOVERNANCE OVERVIEW CONTINUED

Principle	Application of the principle
<b>Governing structures and delegation</b>	
<p><i>Principle 6</i></p> <p>The board should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p><i>Role of the board</i></p> <p>The board has an approved charter which it reviews annually. The board's role and responsibilities are articulated in the board charter. The board is the focal point and custodian of corporate governance, both in terms of how its role and responsibilities are documented and the way it executes its duties and responsibilities.</p>
<p><i>Principle 7</i></p> <p>The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p><i>Composition of the board</i></p> <p>The nominations committee considers, on an annual basis, the composition of the board in terms of the balance of skills, experience, diversity, independence and knowledge needed to discharge the board's role and responsibility.</p> <p>Further details regarding the composition of the board, assessment of the independence of the non-executive directors, induction and the board's diversity policy is contained in the governance section of the integrated report.</p>
<p><i>Principle 8</i></p> <p>The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p>	<p><i>Committees of the board</i></p> <p>The board has seven committees that assist it in discharging its duties and responsibilities as follows:</p> <ul style="list-style-type: none"> <li>• Audit committee</li> <li>• Risk committee</li> <li>• Remuneration and human resources committee</li> <li>• Investment committee</li> <li>• Nominations committee</li> <li>• Social, ethics and transformation committee</li> <li>• Clinical governance, quality and safety committee</li> </ul> <p>The committees operate in accordance with written terms of reference which are reviewed and approved by the board annually. The nominations committee reviews the board committees as well as the composition of the committees annually and makes recommendations to the board with due regard to the skills sets required which contribute to the effectiveness of the committees and the distribution of the balance of power to avoid a situation where individual/s dominate decision-making. The nominations committee also considers whether the existing committees allow the board to properly discharge its duties. Each of the committee chairmen provide feedback to the board on the deliberations of the committee meetings and copies of the minutes of the committee meetings are included in the board pack. Additional information on the board committees are to be found in the governance section of the integrated report.</p>
<p><i>Principle 9</i></p> <p>The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p>	<p><i>Evaluations of the performance of the board</i></p> <p>Formal assessments of the effectiveness of the board, board committees, Chairman, directors and Group Company Secretary are conducted annually under the auspices of the nominations committee. In-house assessments are conducted and external formal assessments take place every three years. Further details of the external board assessment conducted for FY2017 are contained in the governance section of the integrated report.</p>

Principle	Application of the principle
<b>Principle 10</b>	
<p>The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.</p>	<p><i>Appointment and delegation to management</i></p> <p>While retaining overall accountability, and subject to matters reserved to itself, the board has delegated authority to the Group Chief Executive Officer to run the day to day affairs of the Company, subject to a delegation of authority framework. The delegation of authority framework sets out authority thresholds and governs sub-delegation. The framework also prescribes authority levels for each of the territories that the Group operates in.</p>
<b>Governance of functional areas</b>	
<b>Principle 11</b>	
<p>The board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	<p><i>Risk governance</i></p> <p>The board, supported by the risk committee, is ultimately responsible for the governance of risk. The role of the risk committee is to ensure that the Company has implemented an effective policy and plan for risk management which enhances the Company's ability to achieve its strategic objectives. The risk committee oversees the development and annual review of a policy and plan for risk management and recommends these for approval to the board. Management designs, implements and monitors the risk management plan and is accountable for embedding the risk management process in the business. Mitigating controls are formulated to address the risks, and the board is kept up-to-date on progress on the risk management plan. The day-to-day responsibility for management of the risk management plan rests with the Group Risk Manager.</p> <p>Two independent non-executive director members of the audit committee also serve on the risk committee ensuring there is co-ordination in respect of the evaluation and reporting of risks.</p>
<b>Principle 12</b>	
<p>The board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p>	<p><i>Technology and information governance</i></p> <p>The board is cognisant of the importance of technology and information as it is interrelated to the strategy, performance and sustainability of the Company. The risk committee is responsible for information and technology governance in accordance with King IV. The committee oversees the implementation of IT governance mechanisms, IT frameworks, policies, procedures and standards to ensure the effectiveness and efficiency of the Group's information systems. The committee has co-opted an external IT specialist to assist it in governing technology and information.</p>
<b>Principle 13</b>	
<p>The board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	<p><i>Compliance governance</i></p> <p>The board is responsible for the Group's compliance with applicable laws. The board has delegated the responsibility for implementing compliance to management. The board is assisted by the risk committee in monitoring compliance.</p> <p>The social, ethics and transformation committee assists the board with ensuring responsible business practices within the Group and monitors the Group's activities in line with section 72 of the Companies Act, no 71 of 2008 (as amended).</p>

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

<b>Principle</b>	<b>Application of the principle</b>
<b>Principle 14</b>	
<i>Remuneration governance</i>	
<p>The board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium and long-term.</p>	<p>The Group's remuneration strategy's objective is to attract and retain key talent and to motivate and reward employees appropriately to ensure they achieve key organisational objectives.</p> <p>The remuneration report and remuneration policy set out in the 2017 integrated report have been designed to give effect to the Group's strategic objectives.</p>
<b>Principle 15</b>	
<i>Assurance</i>	
<p>The board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	<p>The Group has implemented a combined risk assurance model which is coordinated and managed by internal audit. Combined assurance at Group and subsidiary levels are overseen by the audit committee.</p> <p>The board has delegated to the audit committee oversight of, inter alia, effectiveness of the Company's assurance services with focus on combined assurance including external audit, internal audit, and the finance function as well as the integrity of the integrated report and the annual financial statements.</p> <p>The audit committee receives on a quarterly basis a detailed report on the progress of the internal audit function against its annual risk based plan.</p> <p>The audit committee report is contained in the annual financial statements.</p>
<b>Stakeholder relationships</b>	
<b>Principle 16</b>	
<i>Stakeholders</i>	
<p>In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	<p>Establishing and maintaining effective stakeholder relationships are not only essential to sustain the growth of the Company but also an essential component of sound governance. The board has approved a stakeholder framework and engagements with stakeholders are in accordance with the framework.</p> <p>Details of stakeholder relationships and stakeholder engagements are included in the integrated report.</p>
<p>Relationship within a Group of Companies</p>	<p>The board is the custodian of corporate governance across the Group. The delegation of authority framework is approved by the board and reviewed annually. The approved framework and authority levels are implemented throughout the Group. Policies are developed and implemented at Group and subsidiary levels. In cases where policies are required to address specific needs of business, these are developed and applied at business unit level with appropriate Group oversight by the Group operational executive board.</p>

## Key southern Africa regulations

These are the key changes/concerns/pending regulations that can have material impact on the southern Africa operations.

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### National Health Act's Office of Health Standards Compliance

The Minister of Health intends to set norms and standards for quality, in terms of the National Health Act, 61 of 2003. These norms and standards will be aligned with the norms and standards for health establishments as published by the Office of Health Standards Compliance.

The draft norms and standards were published for comment in March 2015. Life Healthcare has reviewed the documents and presented its comments to HASA. HASA attorneys have prepared the consolidated version incorporating the various groups' feedback for submission to the Minister, and HASA submitted collective comments on the regulations. This submission highlights many issues contained in the regulations that currently apply equally to public and private facilities despite the significant differences in operating practices and regulatory frameworks. The procedural regulations pertaining to the functioning of the Office of Health Standards Compliance and handling of complaints by the Ombud came into operation in October 2016.

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### National Health Insurance (NHI)

South Africa's National Department of Health released the White Paper on NHI on 10 December 2015. The Group submitted its response to the NHI White Paper in May 2016 with a position that fundamentally supports the principle of all South Africans having access to affordable, comprehensive quality healthcare services, but one that questions the approach of the NHI policy in its current form. The NHI White Paper was gazetted in June 2017. The next phase extends from 2017 to 2022, which will focus on the development of NHI legislation and amendments to related legislation.

NHI implementation: *Institutions, bodies and commissions that must be established* was gazetted in July 2017.

Our view is that the NHI fails to address the critical issues required to ensure universal health coverage, namely:

- developing a well-run and functioning public sector;
- improving management skills; and
- addressing the shortage of healthcare professionals.

The costing in the White Paper is not aligned with the current economic reality and there has been no real change from the 2011 Green Paper.

Life Healthcare remains supportive of the government's desire to ensure a stronger healthcare system and looks forward to continued engagement on ways to collaborate and provide constructive input into the direction of the reform agenda in a broader manner.

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### Free State Licensing Regulations

The Free State Department of Health published regulations in August 2014 on the licensing framework for private hospitals. We submitted comments relating to the premature inclusion of the National Health Act section 36 criteria (certificate of need), and certain inappropriate anomalies and conditions that exist within this Act.

Final regulations were published in September 2014 with no major changes to the draft regulations. This resulted in Life Healthcare challenging the Department, through HASA, in the Free State High Court. The matter was heard on 25 July 2016. Regulations 2, 3, 4, 6 and 14 of the 2014 regulations and the annexures were set aside. Pursuant to the judgment, further amendments were published that are intended to amend and replace the amendments which were set aside with effect from 22 June 2017. The updated regulations published in September 2017 remain problematic and comments have been provided.

## CORPORATE GOVERNANCE OVERVIEW CONTINUED

### Protection of Personal Information Act (PoPI)

PoPI was promulgated in November 2013 with the commencement date still to be identified. The Act protects the personal information collected and processed by organisations and will impact how personal information held by the Group is dealt with – in relation to employees, patients, doctors and suppliers.

We formed a working group that conducted a gap analysis to highlight areas where additional controls and actions were required to ensure full compliance with PoPI.

Deloitte was appointed to perform a verification of the gap analysis and assisted in the development of an implementation road map. We are in the process of addressing the gaps and rolling out PoPI awareness training throughout the southern Africa operations.

A privacy officer for the Group was appointed effective 1 November 2016.

### Labour Relations Amendment Act

Changes to the Labour Relations Act became effective on 1 January 2015, and the impact of the changes in legislation is being addressed as legal precedent develops. The amendment introduced significant changes to the regulation of non-standard forms of employment (part-time), namely temporary employment services (agency staff), employees on fixed-term employment contracts and sessional employees. In order to align with emerging precedent, we made amendments to the way in which we contract with temporary employees.

### Proposed amendments to the Medical Schemes Act (MSA)

The proposed amendments attempt to introduce certain limitations on prescribed minimum benefits which are not currently the case under the MSA. In addition, the section also attempts to make prices charged by medical professionals dependent on a 2006 National Health Reference Price List (NHRPL) tariff that was ruled unlawful by the courts during previous HASA litigation or may negotiate alternative tariffs with the relevant healthcare provider where no co-payment or deductible is payable by a member.

Life Healthcare has submitted comments on these proposed amendments, through HASA, wherein it challenges the basis of the proposed amendments as unlawful.

### Other reporting requirements

#### Insider trading

Life Healthcare observes a closed period from the end of the accounting period to the announcement of the interim or annual results, and when otherwise required in terms of the JSE Listings Requirements. During this time, no employee or director who might be in possession of unpublished price-sensitive information may deal, either directly or indirectly, in the shares of the Company. Comprehensive guidelines on how to comply with insider trading restrictions and how to deal with analysts are provided in the insider trading policy.

#### Going concern

The board considers and assesses the Group's going-concern basis in the preparation of the annual and interim financial statements. In addition, the solvency and liquidity requirements per the Companies Act are considered. The board is satisfied that the Group will continue as a going concern into the foreseeable future.

#### Material litigation

During the financial year, the Group was not involved in any material litigation or arbitration proceedings, nor were the directors aware of any pending or threatened legal issues which may have a material impact on the Group's financial position. Institutions in the healthcare sector are subject to patient lawsuits and the directors are of the opinion that the Group has sufficient insurance to mitigate financial risk.

#### Political party contributions

In line with the code of ethics, employees may not make any direct or indirect political contribution on behalf of the Group unless authorised by the board. This includes contributions to candidates, office holders and political parties. No political party contributions were made in the current financial year (2016: nil).

# REMUNERATION

## REPORT

**D**riving high performance through competitive remuneration.

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### Dear shareholder,

I am pleased to present this background letter and the accompanying remuneration report for Life Healthcare.

The group remuneration and human resources committee (the committee) recognise the increased need for stakeholder engagement, and we will continue to engage with major shareholders in this regard.

During the year, the committee dealt successfully with a number of key issues which include:

- dealing with the impact of the rights issue on the Company's incentive schemes;
- the exit of the Group Chief Executive Officer on mutually agreed terms;
- external benchmarking and review of non-executive directors' fees which were lagging behind our peers, primarily as a result of a freeze in fees during 2016. The review included the introduction of separate fees for the role of lead independent non-executive director; and
- addressing the continued shortage of key clinical nursing and pharmacy skills by improving the value proposition to these categories of staff. Staff turnover has improved to the best levels ever experienced in the history of the Company.

We recognise the importance of incentivising our employees and management. We believe that strongly committed employees and management promote the Group's growth, quality, efficiency and sustainability strategic focus areas.

As the demand for healthcare increases, the labour market becomes increasingly competitive. Continued slow economic growth has been a challenge, and global mobility has resulted in the loss of key skills. The Group continues to seek creative ways to attract and retain skilled individuals to address the slow growth of the talent pool, especially regarding clinical skills. Over the past two years, offshore expansion and local market pricing have negatively impacted aspects of profitability. As a result, our LTIs and performance bonuses are becoming challenging.

Challenges like these may lead to executives looking for opportunities outside the Group. It is imperative for us to ensure we prevent the loss of key skills. The committee, in collaboration with the Group as a whole, strives to address challenges faced to ensure future success. The committee has consequently initiated a review of our employee (managerial) value proposition by a leading consulting group.

We endeavour to design and continue calibrating our executive remuneration, in a manner that promotes the achievement of key business objectives in order to qualify for variable remuneration.

The committee is of the opinion that the Group's HR strategy delivered a sound value proposition to employees in the past year, and improved employee retention rates support this. Our employee reward and recognition initiative was developed to ensure a broader application of recognition at all levels in the Company. It recognises when individual and Group performance goes beyond expectation and continues to drive the correct behaviour. The performance of the Life Healthcare share price and resultant lack of retention value offered by the long-term incentive scheme is, however, of concern. The value proposition to senior managers is a key item on the committee's agenda for 2018.

The committee solicits and receives independent, external professional advice on matters within the scope of its duties. During the year, we received assistance on matters associated with remuneration in general and executive remuneration specifically by a number of consultants who, in the view of the committee, are fully independent.

### Royden Vice

*Chairman: Remuneration and human resources committee*

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### Please note

Life Healthcare Group Holdings Limited and its subsidiaries are defined as the Group, while Company refers to the southern Africa business.

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## REMUNERATION REPORT CONTINUED

### Remuneration policy report

#### Introduction

In embracing positive governance and effective disclosure, our remuneration policy and implementation are explained in compliance with King IV and draft guidelines and practice notes of IoDSA. The remuneration policy report and the accompanying remuneration implementation report (implementation report) are to be tabled at the upcoming annual general meeting and are to be subject to separate non-binding advisory votes by shareholders.

Through these non-binding advisory votes, the shareholders express their views separately on the remuneration policy and the implementation thereof as disclosed in the implementation report.

We will continue to engage with shareholders as well as other stakeholders regarding our remuneration policy and in particular, be sensitive to our employees' needs and the requirements of the Company to retain our talented and skilled people.

All information relates to southern Africa unless stated otherwise.

#### Remuneration philosophy

The Group's remuneration strategy's objective is to attract and retain key talent and to motivate and reward employees appropriately to ensure they achieve key organisational objectives.

The remuneration philosophy is informed by business objectives, market competitiveness, employee growth and development, the retention of scarce and specialised skills and legislative compliance.

Our remuneration strategy aims to:

- support the Group's business, human resource strategy, and provide a platform for the provision and articulation of the remuneration policy;
- provide a platform for fair, responsible and transparent remuneration throughout the Group;
- align management's interests with those of shareholders;
- encourage innovation and progress;
- promote an ethical culture and responsible corporate citizenship;
- offer support aligned to the vision and direction of the Group's goals and strategy;
- be flexible in order to adapt and change as the business responds to market forces; and
- continually monitor its efficacy to ensure that the unique needs of the employees and Group are being met.

The Group acknowledges that focused management and employee attention to business objectives are critical success factors for sustained long-term value creation for

stakeholders. To this end, its remuneration strategy aims to attract and retain the talent required to give effect to these objectives.

Therefore, the Group will periodically solicit a number of market survey providers for an indication of the guaranteed remuneration and annual cash incentive payments, made generally and sectorally. This is undertaken in order to assess our positioning compared to the market in terms of key talent, and to assess our own performance in delivering a value proposition to all employees of fair and equitable remuneration.

The committee has a systematic agenda to review the remuneration strategy and overall policy (including higher-level strategic reward principles). It oversees, without interfering in areas where management ordinarily have discretion, the implementation of policy over an annual cycle. At least annually, formal feedback is provided to the board on how the policy objectives are being achieved, and this feedback forms part of the process of obtaining approval of the remuneration report.


In the annual review of the benefits offered by the Group, the committee considers whether they are appropriate and competitive given the industry, the Group's financial position, legislative requirements, and market benchmarks and trends, and if the costs relating to the administration of the benefits/schemes are justified.

The committee reviews the policy and objectively assesses the appropriateness of the fixed to variable remuneration mix for the Group, to ensure that it reflects the remuneration strategy, and:

- serves the Group's operational needs and objectives;
- is competitive;
- is sustainable; and
- serves the achievement of strategic objectives and promotes positive outcomes.

At the same time, it ensures that the tenets of fair and equitable remuneration are addressed, by assessing:

- how the benefits are perceived and understood by participants;
- if the benefits/schemes/trusts are soundly governed;
- whether the benefits/schemes meet the needs of employees and are fair towards all employees; and
- whether benefits that are offered to executives are similarly offered to employees and if not, what the justification is.

This remuneration philosophy and the attendant policies that support it are widely shared with employees, and can also be accessed by the public at [www.lifehealthcare.co.za](http://www.lifehealthcare.co.za). 

### Fair and equitable remuneration structures

The Group targets a mix of remuneration elements to align reward strategy to its stated objective of providing fair, responsible and transparent remuneration throughout the Group, in order to:

- attract, motivate, reward and retain human capital;
- promote the achievement of strategic objectives within the Group's risk appetite;
- promote positive outcomes;
- promote an ethical culture and responsible corporate citizenship; and
- provide a balanced remuneration mix within the Group's financial constraints.

The following aspects are considered in the delivery of a compelling value proposition to employees:

- Job evaluation/job sizing
- Design and implementation of remuneration structures based on a unique mix of remuneration elements specific to Life Healthcare
- Development of integrated performance management systems
- Bonus, incentive and employee ownership plans
- Non-monetary rewards

All elements of remuneration that are offered in the Group are set out in the detailed remuneration policy that follows, including:

- Fixed remuneration: Salary and benefits and how these are determined, including contributions to retirement, risk funds and medical benefits, leave entitlements, allowances and flexible work conditions

- Variable remuneration: Short-term performance incentives – Annual or shorter incentives and (generally) cash performance-based payments
- Variable remuneration: Long-term incentives – share-orientated awards that are performance and retention based
- Retention and sign-on payments
- All other types of payments including, for example, loss of office or termination payments and restraint payments
- Non-executive directors' fee structures and the principles for setting of fees

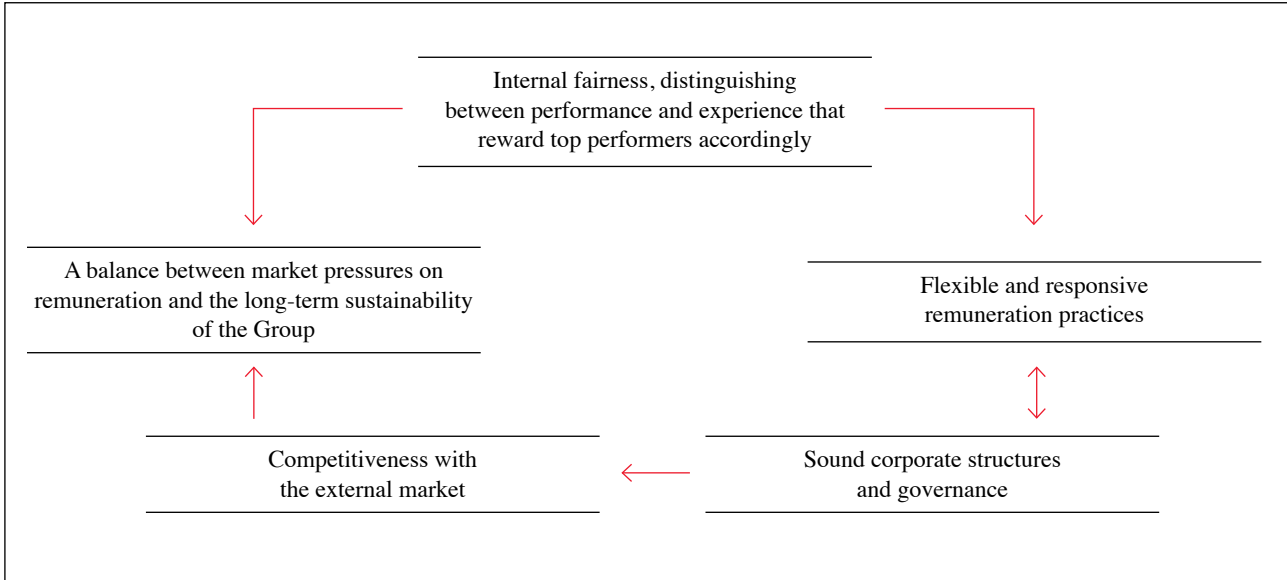
The proposed introduction of policies on malus (pre-vesting) and clawback (post-vesting) provisions and minimum shareholding requirements/guidelines are also discussed.

#### **Non-binding advisory votes on the remuneration policy and remuneration implementation report**

In the event that less than 75% support for the remuneration policy and remuneration implementation report are achieved at the annual general meeting, Life Healthcare will invite dissenting shareholders to send reasons for such votes in writing whereafter further engagements may be scheduled.

## REMUNERATION REPORT CONTINUED

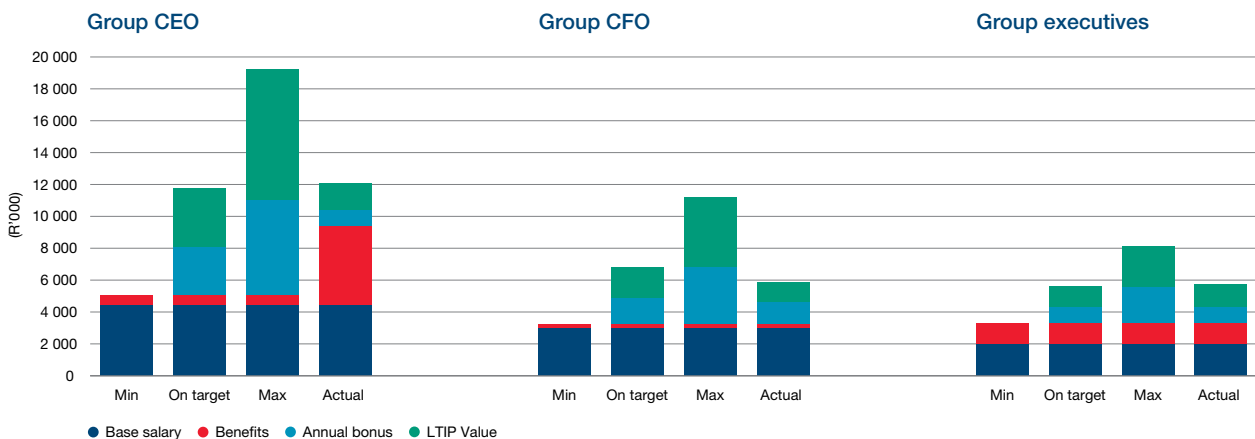
At a practical level, the Group strives for:



The Group offers senior employees a combination of guaranteed remuneration, short and long-term incentives. Short-term incentives are paid to employees at middle management and higher grades who have a line of sight to business objectives. Targets are stretched to encourage superior performance. Senior managers who have a more strategic focus participate in the Group's long-term incentive scheme to ensure long-term sustainability of the Group and alignment with shareholders' interests.

The on-target pay mix apportionment for a number of executive positions in Life Healthcare is shown in more detail in the graph below.

The potential consequences of the remuneration policy on the total remuneration for executive management are illustrated below. The standard minimum, on-target and maximum expected reward mix for executives in Life Healthcare are depicted. Actual remuneration in the year under review is also identified for illustrative purposes, but is commented on more fully in the implementation report which follows.



### Notes

- LTIP actual payments are based on 2014 allocations that vested in January 2017.
- For simplicity in the above graph, any actual payments made for extraordinary or outside policy decisions, for example for recruitment or termination, are included under benefits. These benefits are separately detailed and explained in the accompanying implementation report, single-figure disclosure.

Scanmed has a similar remuneration offering to Life Healthcare, i.e. guaranteed remuneration, short and long-term incentive plans. The Group commissioned an international survey house to establish benchmark management salaries for similar sized companies in the Polish market. The combined remuneration offering creates strong alignment to Scanmed company financial performance.

### Guaranteed remuneration

<b>Base salary</b>	<ul style="list-style-type: none"> <li>• Attraction and retention of key employees</li> <li>• Internal and external equity</li> <li>• Rewarding individual performance</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• External market competitiveness</li> <li>• Integrated approach towards wellness, driving employee effectiveness and engagement</li> </ul>
<b>Allowances</b>	<ul style="list-style-type: none"> <li>• Compliance with legislation</li> <li>• Key focus on attraction and retention of clinical skills</li> <li>• Specialist allowances are paid for specialised employees to recognise skills and incentivise and retain employees. Higher premiums are paid to qualified employees to heighten professionalism and Group excellence</li> <li>• Other variable allowances are paid for additional services rendered</li> </ul>
<b>Guaranteed package</b>	<ul style="list-style-type: none"> <li>• Salaries are benchmarked against general market surveys and specific healthcare market data</li> </ul>

The Company benchmarks remuneration against the market median which is derived from representative salary surveys.

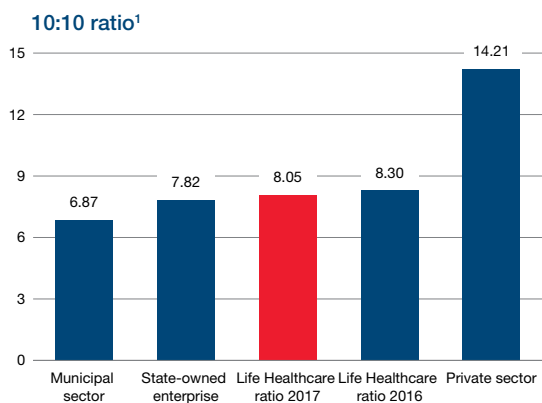
In southern Africa an average increase of 6.0% in guaranteed package was granted to the executives in the 2017 salary review, which was lower than the average increase granted to salaried employees.

### Wage gap

Research suggests that the so-called 10:10 ratio provides an insightful view on the top versus bottom earnings comparison in organisations.

This methodology analyses the average guaranteed remuneration of the highest earning 10% of employees against the lowest earning 10% of employees. The Company's 10:10 ratio reflects a more conservative distribution of income compared to the private sector

as depicted below. The Company's efforts in increasing the wages of lower paid employees is evidenced by the reduction in the ratio from 2016 to 2017:



<sup>1</sup> Source: African Journal of Reward – Edition 2 (Bryden Morton and Chris Blair) – March 2017.

## REMUNERATION REPORT CONTINUED

### Employee benefits

The benefits that form part of total cost to company include the following:

#### Retirement funds

The Company operates two defined contribution retirement funds:

- The Life Healthcare Provident Fund
- The Life Healthcare DC Pension Fund

In addition, the Company operates two defined benefit funds that have been closed to new membership since 1996. The Life Healthcare DB Pension Fund provides retirement benefits for 121 active members and 246 pensioners. The remaining 10 active members of the Lifecare Group Holdings (LGH) Pension Fund joined the Life Healthcare DB Pension Fund with effect from 1 March 2017, following registration of a rule amendment to allow the Life Healthcare Fund to accept the LGH members. The next step will be to outsource the pensioner liability in the LGH Fund to an insurer, as the fund advances towards closure and deregistration.

The Company-supported retirement funds offer Group life cover and disability benefits to members. Permanent disability and death are covered by lump sum payments that are underwritten by an insurer. The standard cover for new employees is three times annual salary for death and disability cover. Some historical anomalies to this standard cover exist.

#### Medical aid

It is a condition of employment for permanent employees earning above R7 000 per month (with effect from 1 January 2018) to belong to a Company-supported medical aid, unless membership of a spouse's medical aid can be proven.

Membership of a principal member, spouse and up to two children is subsidised by the Company.

The Company participates in the open medical scheme market and offers Medshield and Discovery Health as options to employees. In addition, medical aid membership is voluntary for employees who earn below the threshold level referred to above. However, the Company will, in instances where employees earning below R 7 000 per month (with effect from 1 January 2018) opt not to join a medical aid, procure a primary health benefit for such employees. This benefit covers, via a bespoke network, doctors' consultations, medication and a certain number of prescribed minimum benefits.

### Other benefits

All other benefits are industry benchmarked and are granted on the basis that they aid employee retention and/or provide an efficient work environment for the employee. Such benefits are priced and form part of the annual salary review mandate process.

### Short-term incentives

#### Short-term incentives

- Alignment with Group and business unit performance
- Individual performance, which includes transformation and quality
- Rewards performance against targets

The Group's variable compensation plan (VCP) is a short-term reward scheme based on balanced scorecard methodology and is offered to managers who have line of sight and contribute to the profitability of the business.

Balanced scorecard measures are weighted differently at each level of the organisation in line with the accountability of employees and the behaviour that needs to be encouraged; and both modifiers and gatekeepers are applicable where appropriate, where the gatekeeper acts as a penalty, and a modifier may enhance or decrease incentives for performance relative to targets.

In setting targets, the committee is mindful that external factors, some of which are unpredictable, can mitigate performance, but it strongly believes that overall sustainable performance should still be carefully considered and then targeted, within a mix of financial and non-financial measures that are directly controllable, but still in the context of overall affordability and alignment with shareholder outcomes.

The board may apply its discretion on all payments, to mitigate against unintended consequences, but this discretion is reluctantly applied, and only used in extreme and exceptional circumstances. Such discretion for executives is fully disclosed in the implementation report.

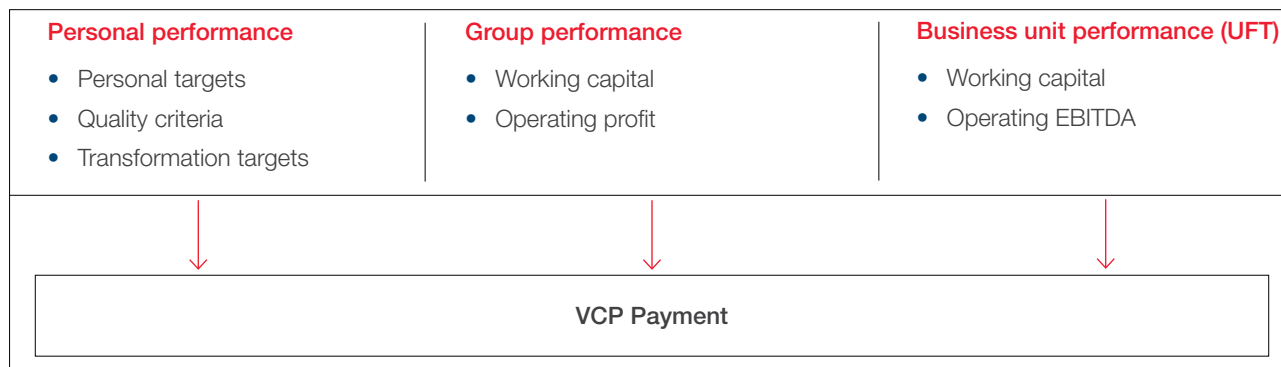
For each performance measure or scorecard element, a weighting is set reflecting its overall importance for that year, as well as levels for threshold, target and stretch performance. Individual and corporate performance targets are reviewed annually in advance.

The Group emphasises pay for performance only, and any business and/or personal performance below a set threshold will result in non-payment of incentives.

**Life Healthcare variable compensation plan (VCP) (southern Africa)**

*a) Balanced scorecard measures*

Payments under the VCP scheme are based on personal and financial performance (which is either business unit performance, or a combination of Group and business unit performance).



**Note**

Specific detail applicable to the Group Chief Executive Officer financial measures are reflected below, and are not illustrated in the above diagram.

The Group CEO has a bespoke balanced scorecard which, for the financial year under review, comprised the following measures:

<b>Financial</b>	<b>Group</b>	<ul style="list-style-type: none"> <li>• Group normalised earnings per share against budget</li> <li>• Group return on equity</li> </ul>
	<b>Southern Africa</b>	<ul style="list-style-type: none"> <li>• EBITDA delivered against budget</li> <li>• Free cash flow against budget</li> </ul>
	<b>Poland</b>	<ul style="list-style-type: none"> <li>• EBITDA delivered against budget</li> <li>• Improvement of EBITDA margin</li> </ul>
<b>Personal</b>	<b>Group</b>	<ul style="list-style-type: none"> <li>• Total growth in current and new business including complementary services</li> <li>• A number of strategic objectives aimed at improving efficiency, quality and sustainability, namely environmental, social and governance (ESG)</li> </ul>



## REMUNERATION REPORT CONTINUED

### b) On-target and maximum payments

The level of potential reward has been industry benchmarked and directly influences total remuneration. A targeted percentage, ranging from 10% to 72.5% of remuneration, represents a theoretical on-target reward should the targeted objectives be met, which escalates as responsibility increases. However, actual reward may exceed this percentage if targets are exceeded.

Maximum rewards are as follows:

- Group performance – capped at 225% of on-target remuneration
- Business unit performance – capped at 225% of on-target remuneration
- Personal performance criteria – capped at 120% of on-target remuneration

The maximum potential reward based on the above criteria ranges from 12.6% to 149% of salary, depending on the management level.

### Scanned short-term incentive scheme (Poland)

Short-term variable compensation is paid to the management board of Scanned, and targeted reward is based on seniority. Payment is made every six months and is based on the following targeted reward:

Measures	Weighting	
	Chief Financial Officer	Management team
Financial goals	75%	50%
Personal performance	25%	50%

### Alliance Medical short-term incentive scheme (UK)

Short-term variable compensation is paid to the management board of Alliance Medical and targeted reward is based on seniority. Payment is made annually and is based on the following targeted reward:

Weighting	Senior management
Financial goals	67%
Personal performance	33%

### Long-term incentive plan

#### Long-term incentives

- Direct alignment with shareholders' interests by making the award conditional upon the achievement of targets.
- Awards are made annually to eligible managers.
- Scheme reviewed annually to ensure its continuous alignment to strategic goals.
- Recently extended to executive management of Scanned (Poland)

#### Purpose

The purpose of the long-term incentive plan (LTIP) is to motivate and reward executives and senior managers who are able to influence the long-term performance and sustainability of the Group. This is done by rewarding participants based on Group performance against key long-term measures.

#### The aims of the plan are

- to provide a long-term financial incentive to maximise a collective contribution to the Group's continued growth and prosperity;
- to allow managers to share in the growth of the Group;
- to align managers' interests with those of the Group's shareholders;
- to assist with the recruitment and motivation of managers of the Group;
- to reward executives for sustained out-performance; and

- in terms of a newly adopted policy to encourage unencumbered share ownership, an element of retention, but still governed by performance criteria.

#### The scheme design

The LTIP is a notional performance share plan for all senior managers and executives. The notional value of the performance shares is linked to the Company's share price. Allocations are made annually.

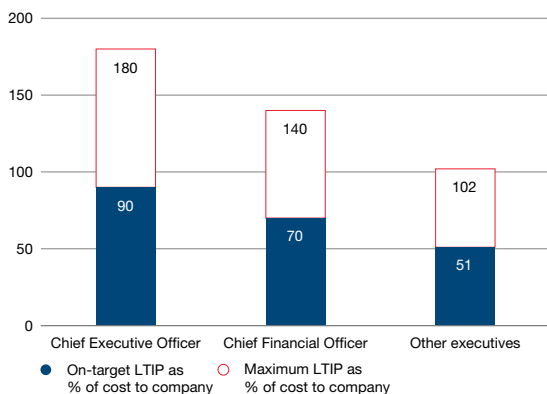
#### a) Allocation levels and maximum vesting

The value of the award is set to realise a targeted percentage payment of guaranteed package when vesting, assuming targeted performance levels are achieved. The quantum of reward increases with seniority and is market benchmarked.

The value of the performance shares will be determined by the Company's listed share price, using a 30-day volume weighted average traded price (VWAP).

The maximum vestings for the Group Chief Executive Officer, Group Chief Financial Officer, executive directors and prescribed officers are as follows:

**LTIP allocation levels and maximum vesting (%)**



**b) Sustained performance/retention modifier**

The allocation of performance shares can be enhanced via a performance/retention modifier to retain key high-performing individuals with no allocation for poor performance, while the allocation for top performance may be enhanced up to 130% of on-target allocations.

**c) Vesting and settlement**

All units vest at the end of the third year, and the cash value is determined. The after-tax value is used to purchase Life Healthcare shares on the open market, which are delivered to participants.

**d) Performance measures**

Two performance measures generally apply, namely total shareholder return (TSR) and earnings before interest and tax (EBIT). However, to align closer with shareholder interests, the Group Chief Executive Officer and Group Chief Financial Officer are measured on headline earnings per share (HEPS) in place of EBIT.

Measure	Rationale	Reward threshold	On-target performance	Maximum performance
TSR 50%	Key external indicator ensuring alignment with shareholder interest.	Below 50th percentile = no payment	60th percentile	80th percentile = 200% award
EBIT 50% OR HEPS (Group CEO, Group CFO) 50%	A key internal indicator of the underlying profit performance of the Group, reflecting both revenue and costs.  A key indicator of the effective disclosure of the profits and losses of a company in a given trading period.	Below CPI + 1% = no payment	CPI + 4%	CPI + 8% = 200% award

The LTIP scheme is currently under review to possibly include ESG measures, either as gatekeepers or as modifiers.

• Total shareholder return

The target TSR is set as relative to a comparator group of 27 listed companies, which are similar in size and investor profile. The comparator group excludes banks, telecommunications and resources companies, but includes direct competitors in the private healthcare market. On vesting, the actual TSR will be compared to the TSR of the comparator group. This determines the modifier for the number of performance shares vesting.

$$\text{TSR \%} = \frac{\text{Ending share price minus initial share price (plus all dividends received)}}{\text{Initial share price}} \times 100$$

The target thresholds are set at date of allocation of units, and vesting only occurs starting at median performance. The multiplier for the performance shares will be on a sliding

scale from 0% to 200% for each performance measure, thus complete outperformance in comparison to the comparator group results in a maximum 200% award.

• EBIT (HEPS for Group Chief Executive Officer and Group Chief Financial Officer)

The internal financial measure of EBIT is the absolute performance measure that will be used to modify the value of the performance shares vesting. This measure will be set relative to inflation (CPI).

The target thresholds are set at date of allocation of units, and no vesting occurs under CPI + 1%.

**Long-term incentive schemes: Rights issue adjustments**

The rules of the Company's long-term incentive schemes require that adjustments be made to accommodate the effects of a rights issue. The Company sought advice from a leading investment bank and the committee approved the following adjustments:

## REMUNERATION REPORT CONTINUED

### *Previous LTI Scheme (2013 and 2014 allocations remain)*

The last allocation in terms of this scheme was made in 2014. All allocations have vested, however, there are still employee purchased shares and Company matched shares held in trust until restrictions are lifted in 2018 (2013 allocation) and 2019 (2014 allocation).

- The rights issue offer applied to shares held in the LTIP Trust. Where participants elected to follow their rights, they were required to pay for additional rights issue shares with own funds. Under such circumstances the Company matched the employees' commitment by funding the following of rights on Company matched shares.

### *New LTI Scheme (introduced from 2015)*

- An adjustment ratio of 1.21367 was applied to all Performance shares held by participants. The ratio was based on the change in the VWAP in the 10 days before the finalisation date (23 March 2017) and the 10 days VWAP post the rights issue date.
- Base EBIT will be adjusted to reflect the acquisition of Alliance Medical.
- The TSR ranking is obtained from a service provider that factors in any corporate action.

### **Employment contracts**

Executive employment contracts for management are generally subject to a three-month notice period and a subsequent six-month restraint of trade.

The letters of appointment for executive directors specify that he/she "be required to tender his/her resignation as an executive director on the board with effect from the 3rd anniversary date of the date of commencement of the Contract and on the anniversary date of each subsequent 3 (three) year period for the duration of the Contract".

They are entitled, but not obliged, to offer themselves up for re-election as executive director on the Life Healthcare board.

If their re-election is supported by the board, but they are not re-elected, the executive director will resign and the notice period will apply, or alternatively, an appropriate payment in lieu of the notice period may be agreed upon between the parties.

On expiry of the notice period, Life Healthcare will make the following payments:

- An amount equivalent to 12 (twelve) months guaranteed remuneration and the amount of the 13<sup>th</sup> cheque payment (if applicable)
- An amount equivalent to 12 (twelve) months of the variable compensation plan payment, based on the amount paid to the executive director during the immediately preceding 12-month period, to be escalated by the CPI increase over the same period
- They would be granted good leaver status with all benefits as provided for in the Life Healthcare LTIP

### **Employee share plan**

An employee share ownership plan was implemented via a trust. Commencing in 2012, the Company funded, via the trust, the purchase of shares to the value of R50 million per annum for the benefit of employees. This year an increased contribution of R60 million was approved by the board to purchase shares on behalf of employees.

The trust holds the shares and confers "rights" or units to shares to employees. Permanent employees who belong to Company retirement funds and have one year's service at the date of grant are eligible for an allocation. The rights have been equally distributed to all qualifying employees.

The objectives of the plan are to incentivise and retain employees. To fulfil these objectives, certain conditions need to be attained by the employees to transfer these rights into actual shares:

- Employees need to remain in the employ of the Company for seven years to obtain the full quota of the rights of each allocation made.

Dividends start to flow to employees from the onset of the plan.

Employees who resign or are dismissed during the duration of the scheme will lose their rights to all allocations made, and their rights will be distributed equally among the remaining employees. Thus, the number of rights will increase by the time of transfer of shares to remaining employees. Good leavers, for example those who are retrenched or retire, will have the proportionate number of shares they hold at the time of termination paid out to them, less tax and costs. They will no longer participate in the employee share plan.

Shares, or the after tax equivalent in cash, are transferred from the trust to the employee after five years as follows:

- 25% of the allocated rights transfer to the employee in year five.
- 25% of the allocated rights transfer to the employee in year six.
- 50% of the allocated rights transfer to the employee in year seven.

The first vesting of 25% of the 2012 allocation has taken place in the current year. This means that in the next three years the scheme will be fully ramped up to provide a 100%

vesting to each employee who received their first allocation in 2012.

The Company will continue to acquire shares on an annual basis to ensure that the opportunity is granted to new employees and the objectives of the plan are continuously achieved. Each allocation will be managed separately and will vest according to the same criteria.

The efficacy of the plan is proving advantageous, as employee turnover for the qualifying participants has reduced substantially.

#### ***Non-executive directors' remuneration***

The fees in respect of non-executive directors are reviewed on an annual basis, and independent survey house data is used for benchmarking purposes. Fees are paid as a combination of a retainer and a fee per meeting to ensure alignment with the emerging market practice and Company culture.

An average increase of 9.6% was granted to non-executive directors, in 2017, to address anomalies in the market.

# REMUNERATION IMPLEMENTATION REPORT

This implementation report discloses the remuneration outcomes on a named individual basis, for each executive director and identified prescribed officer (CLW Bekker and GE Blomfield with effect from financial year 2017).

Additional tables provide details of all awards made under various remuneration incentive schemes:

- In schemes that have not yet vested, including the number of LTIP allocations, the values at date of allocation, their allocation and vesting dates, and an estimated fair value at the end of this reporting period
- The cash value of all awards made under variable remuneration incentive schemes that were settled under the reporting period
- The performance measures used with their relative weighting, as a result of which variable compensation plan (VCP) incentive awards and LTIP allocations were made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the Group and executive managers individually performed against the set targets

All individuals are subject to the Company's standard terms and conditions of employment, specifically as they relate to the employment contract and conditions relating to termination.

As a payment was made to the Group Chief Executive Officer as part of a negotiated termination of employment, these amount(s), are disclosed separately, together with an account as to why, in this instance, the committee applied its discretion/judgement to deviate from policy.

A market comparison of executive salaries was conducted during 2017, and the board remuneration and human resources committee approved an additional adjustment of 13% to the Group Chief Financial Officer's salary to align with salaries of similar roles in the market.

## Remuneration outcomes – total remuneration

2016/2017 total remuneration outcomes are provided on a name and role basis for the current and prior financial years, with explanatory footnotes identifying, where appropriate, the above provisions.

### Actuals achieved 2016 and 2017 in relation to 2017 pay mix targets:

#### Group CEO – A Meyer<sup>1</sup>

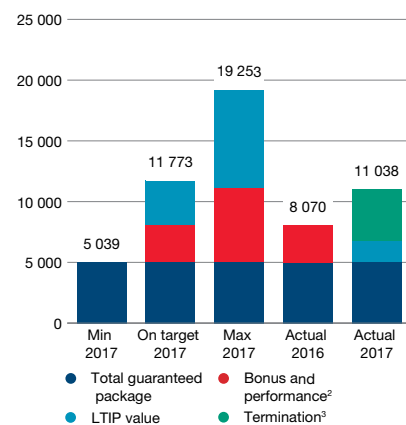
	Total guaranteed package R	Bonus and performance <sup>2</sup> R	Total annual compensation R	LTIP value R	Termination <sup>3</sup> R	Total remuneration R
Targeted reward		72.5%		90.0%		
Min 2017	5 039	–	5 039	–	–	5 039
On-target 2017	5 039	3 004	8 043	3 730	–	11 773
Max 2017	5 039	6 009	11 048	8 205	–	19 253
Actual 2016	4 941	3 129	8 070	–	–	8 070
Actual 2017	5 039	–	5 039	1 686	4 313	11 038
Year-on-year growth (%)	2.0		(37.6)			36.8

<sup>1</sup> Mr Meyer terminated his appointment with the Company by mutual agreement, effective 30 June 2017.

<sup>2</sup> The VCP payment formed part of the mutual separation payment, thus not measured against targets.

<sup>3</sup> Mr Meyer's mutual separation payment consisted of a lump sum made up of the following negotiated elements  
Negotiated bonus in terms of the variable compensation plan to March 2017 – R686 430  
Seven months' guaranteed package – R3 270 853  
Leave balance paid out of – R356 000

Group CEO – A Meyer<sup>1</sup> (R'000)

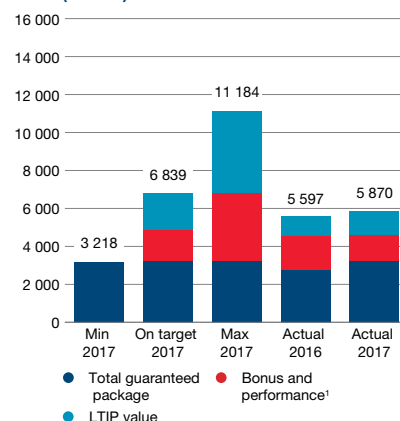


## Group CFO – PP van der Westhuizen

	Total guaranteed package R	Bonus and performance <sup>1</sup> R	Total annual compensation R	LTIP value R	Total remuneration R
Targeted reward		57.5%		70.0%	
Min 2017	3 218	–	3 218	–	3 218
On-target 2017	3 218	1 633	4 851	1 988	6 839
Max 2017	3 218	3 593	6 811	4 374	11 184
Actual 2016	2 750	1 804	4 554	1 043	5 597
Actual 2017	3 218	1 375	4 593	1 277	5 870
Single figure 2017	3 218	1 375	–	1 988	6 581
Year-on-year growth (%)	17.0		0.9		4.9

<sup>1</sup> An additional bonus of R400 000 was awarded in FY 2017 for the successful rights offer and bedding down of the AMG acquisition.

Group CFO – PP van der Westhuizen (R'000)



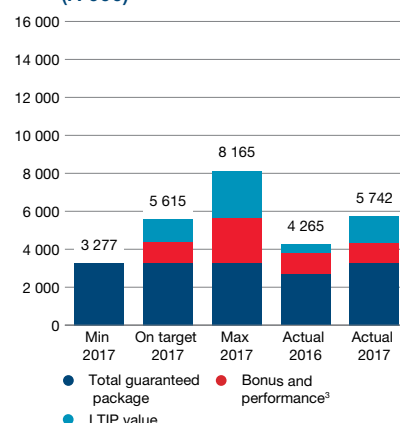
## CEO: Southern Africa – CLW Bekker<sup>2</sup>

	Total guaranteed package R	Bonus and performance <sup>3</sup> R	Total annual compensation R	LTIP value R	Total remuneration R
Targeted reward		57.50%		70.00%	
Min 2017	3 277	–	3 277	–	3 277
On-target 2017	3 277	1 055	4 332	1 284	5 615
Max 2017	3 277	2 320	5 597	2 568	8 165
Actual 2016	2 675	1 133	3 808	457	4 265
Actual 2017	3 277	1 049	4 326	1 416	5 742
Single figure 2017	3 277	1 049	–	1 284	5 610
Year-on-year growth (%)	22.5		13.6		34.6

<sup>2</sup> Mr Bekker was promoted to CEO: Southern Africa in June 2016.

<sup>3</sup> An additional bonus of R335 000 was awarded in FY 2017 for the successful rights offer and bedding down of the AMG acquisition.

CEO: Southern Africa – CLW Bekker<sup>2</sup> (R'000)



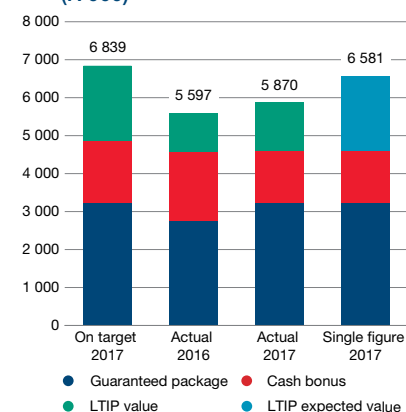
## Remuneration outcomes – single figure

2016/2017 total remuneration outcomes are compared to the 2017 target pay mix and a single figure derivation on a name and role basis for the previous year and the year under review.

## Group CFO – PP van der Westhuizen

	Guaranteed package R	Cash bonus R	Total annual compensation R	LTIP value R	LTIP expected value R	Total remuneration R
On-target 2017	3 218	1 633	4 851	1 988	–	6 839
Actual 2016	2 750	1 804	4 554	1 043	–	5 597
Actual 2017	3 218	1 375	4 593	1 277	–	5 870
Single figure 2017	3 218	1 375	4 593	–	1 988	6 581

Group CFO – PP van der Westhuizen (R'000)



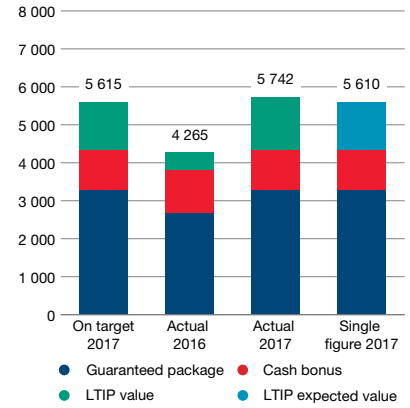


## REMUNERATION IMPLEMENTATION REPORT CONTINUED

### CEO: Southern Africa – CLW Bekker

	Guaran- teed package R	Cash bonus R	Total annual compen- sation R	LTIP value R	LTIP expected value R	Total remu- neration R
On-target 2017	3 277	1 055	4 332	1 284	–	5 615
Actual 2016	2 675	1 133	3 808	457	–	4 265
Actual 2017	3 277	1 049	4 326	1 416	–	5 742
Single figure 2017	3 277	1 049	4 326	–	1 284	5 610

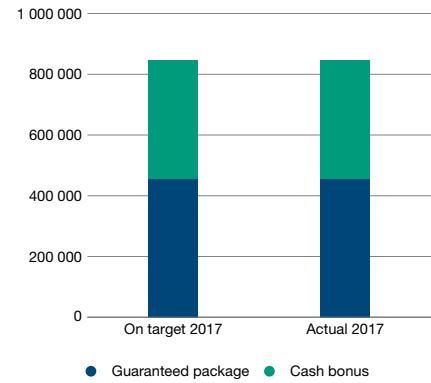
CEO: Southern Africa – CLW Bekker  
(R'000)



### CEO: Alliance Medical – GE Blomfield

	Guaran- teed package £	Cash bonus £	LTIP value £	Total remu- neration £
On-target 2017	455 090	390 822	–	845 912
Actual 2017	455 090	390 822	–	845 912
Single figure 2017	455 090	390 822	–	845 912

CEO: Alliance Medical –  
GE Blomfield (£)



## Remuneration outcomes – 2016/2017 variable compensation plan (VCP) outcomes in detail

The results of performance against all measures in the corporate and individual scorecards are disclosed below in such a way that the stakeholder can reasonably assess whether the incentive is in line with the performance measures and the policy.

### Financial year 2017

			H1 – FY 2017										
First name	Surname	Job description	Targeted reward	Company weighting %	Financial weighting %	Personal weighting %	Company achievement %	Company award R	UFT financial award %	Total UFT financial award R	Personal award %	Personal award R	Total payment H1 R
André	Meyer	Group Chief Executive Officer <sup>1</sup>	72.50	70	-	30	-	-	-	-	-	-	-
Pieter	van der Westhuizen	Group Chief Financial Officer	57.50	60	-	40	-	-	-	-	140	495 231	495 231
Lourens	Bekker	Chief Executive Officer: Southern Africa	57.50	15	60	25	-	-	50	244 530	100	203 775	448 305

			H2 – FY 2017											
First name	Surname	Job description	Targeted reward	Company weighting %	Financial weighting %	Personal weighting %	Company achievement %	Company award R	UFT financial award %	Total UFT financial award R	Personal award %	Personal award R	Total payment H2 R	Grand total R
Pieter	van der Westhuizen	Group Chief Financial Officer	57.50	60	-	40	-	-	-	-	120	479 667	479 667	974 898
Lourens	Bekker	Chief Executive Officer: Southern Africa	57.50	15	60	25	-	-	-	-	120	265 897	265 897	714 202

### Financial year 2016

			H1 – FY 2016										
First name	Surname	Job description	Targeted reward	Company weighting %	Financial weighting %	Personal weighting %	Company achievement %	Company award R	UFT financial award %	Total UFT financial award R	Personal award %	Personal award R	Total payment H1 R
André	Meyer	Group Chief Executive Officer	72.50	70	-	30	115	1 321 613	-	-	100	766 152	2 087 765
Pieter	van der Westhuizen	Group Chief Financial Officer	57.50	60	-	40	115	532 574	-	-	120	370 486	903 060

<sup>1</sup> The variable compensation plan payment for H1-FY 2017 for André Meyer was not measured and was negotiated as part of his mutual separation.

## REMUNERATION IMPLEMENTATION REPORT CONTINUED

H2 – FY 2016														
First name	Surname	Job description	Targeted reward	Company weighting %	Financial weighting %	Personal weighting %	Company achievement %	Company award R	UFT financial award %	Total UFT financial award R	Personal award %	Personal award R	Total payment H2 R	Grand total R
André	Meyer	Group Chief Executive Officer	72.50	70	–	30	35	467 973	–	–	100.00	573 029	1 041 002	3 128 768
Pieter	van der Westhuizen	Group Chief Financial Officer	57.50	60	–	40	100	500 570	–	–	120.00	400 456	901 027	1 804 086

### Remuneration outcomes – history of recently vested and unvested shares

There are currently unvested shares resulting from two legacy share schemes and from the current share scheme.

- From the Life Healthcare 2009 long-term incentive plan, individuals were allowed to elect prior to the vesting of their 2011 and 2012 allocations to defer settlement, invest the shares for a further three years and have those shares matched with additional restricted shares.
- From the Life Healthcare 2013 long-term incentive plan, individuals were allowed to elect at the time of their 2013 and 2014 allocations to defer the vesting of the shares for a further two years (from three to five), and have those shares matched with additional restricted shares.

From the Life Healthcare 2015 long-term incentive plan, performance units were offered in 2015, 2016 and 2017.

Summaries of the current situation for executive directors and prescribed officers are shown below:

Executive directors	LTIP scheme	Share allocation	1 October 2016			Rights offer			Vested 1 February 2017		30 September 2017			
			Offer price R	Co-investment shares	Matched shares	Offer price R	Additional co-investment shares purchased by executive	Adjustment co-matched shares	Number of shares	Price at exercise date R	Number of shares	Allocation value R	Value based on 30 Sept 2017 share price R	
Pieter van der Westhuizen	LTIP 2009 scheme	1 Jan 11	38.72	8 685	14 471				23 156	34.13	–	–	–	
		1 Jan 12	42.66	6 098	10 163				16 261	34.13	–	–	–	
		1 Jan 13	31.66	7 031	11 916	24.50	2 406	4 077			25 430	758 696	602 691	
		1 Jan 14	35.05	7 381	12 509	24.50	2 526	4 280			26 696	863 892	632 695	
	LTIP 2015 scheme	Share allocation	Offer price R	Per-formance shares										Value based on 30 Sept 2017 share price R
		1 Sep 15	37.14	43 126			9 215				52 341	1 943 945	1 240 482	
		1 Jan 16	34.58	40 620			8 679				49 299	1 704 759	1 168 386	
1 Jan 17	31.59	65 380			13 970				79 350	2 506 667	1 880 595			

Prescribed officer	LTIP scheme	Share allocation	1 October 2016			Rights offer			Vested 1 February 2017		30 September 2017		
			Offer price R	Co-investment shares	Matched shares	Offer price R	Additional co-investment shares purchased by executive	Adjustment co-matched shares	Number of shares	Price at exercise date R	Number of shares	Allocation value R	Value based on 30 Sept 2017 share price R
Lourens Bekker	LTIP 2009 scheme	1 Jan 11	38.72	10 453	17 422				27 875	34.13	-	-	-
		1 Jan 12	42.66	7 309	12 182				19 491	34.13	-	-	-
		1 Jan 13	31.66	8 521	14 442	24.50	2 916	4 942			30 821	919 530	730 458
		1 Jan 14	35.05	6 941	11 765	24.50	2 376	4 027			25 109	812 519	595 083
	LTIP scheme	Share allocation	Offer price R	Performance shares		Adjustment to performance shares					Total number of shares	Allocation value R	Value based on 30 Sept 2017 share price R
	LTIP 2015 scheme	1 Sep 15	37.14	29 226		6 245		35 471	1 317 393	840 663			
		1 Jan 16	34.58	33 104		7 073		40 177	1 389 321	952 195			
		1 Jan 17	31.59	54 784		11 706		66 490	2 100 419	1 575 813			

Long-term incentive scheme – C share	1 October 2016		Awards made during 2017			30 September 2017		
	Number of shares	Issue price GBP	Number of shares	Date of issue	Issue price GBP	Value of dividends in respect of all plans	Number of shares	Final vesting date
Guy Blomfield	-	n/a	204 546 <sup>1</sup>	22 Nov 2016	0.003	n/a	204 546 <sup>1</sup>	30 Sept 2021

<sup>1</sup> C convertible shares



# APPENDICES

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# STRATEGIC PERFORMANCE IN NUMBERS

The indicators and statistics presented in this table provide a snapshot of the Group's performance over the last three years.



## Growth focus area and financial ratios

Geographical location and indicator	2017	2016	2015
<b>Life Healthcare (Group)</b>			
Net debt: normalised earnings before interest, tax, depreciation and amortisation (EBITDA), (ratio), debt covenant is <3.5 (2016: 2.75)	<b>2.55</b>	1.67	1.49
Interest cover (ratio), debt covenant is >5.0	<b>4.2<sup>1</sup></b>	8.2	9.7
Capital expenditure as percentage of revenue (%)	<b>8.0</b>	6.2	8.1
Maintenance capital expenditure as percentage of revenue (%)	<b>4.1</b>	2.2	1.6
Growth capital expenditure as percentage of revenue (%)	<b>3.9</b>	4.0	6.5
Normalised earnings per share (EPS) (cents per share (cps))	<b>93.9</b>	169.4 <sup>2</sup>	165.0 <sup>2</sup>
Normalised EPS excluding amortisation (cps)	<b>120.6</b>	179.0 <sup>2</sup>	173.2 <sup>2</sup>
Headline earnings per share (HEPS) (cps)	<b>77.4</b>	179.1 <sup>2</sup>	167.3 <sup>2</sup>
Earnings before interest and tax (EBIT)	<b>3 591</b>	3 637	3 476
Free cash flow	<b>1 283</b>	1 655	2 010
<b>Life Healthcare (southern Africa)</b>			
Paid patient days (PPDs) <sup>A, B, C</sup>	<b>2 226 337</b>	2 265 653	2 177 833
Occupancy (%)	<b>70.0</b>	72.5	71.9
Length of stay (LOS) (days)	<b>3.71</b>	3.68	3.63
Number of healthcare facilities	<b>65</b>	64	63
Number of registered beds	<b>8 983</b>	8 823	8 647
Number of acute facilities	<b>50</b>	50	50
Number of dedicated acute rehabilitation facilities	<b>7</b>	7	7
Number of dedicated mental health facilities	<b>8</b>	7	6
Number of renal stations	<b>303</b>	281	245
Number of oncology units	<b>4</b>	2	1
Number of Life Esidimeni facilities	<b>11</b>	9	12
Number of Life Esidimeni operational beds	<b>3 080</b>	2 424	3 794
Number of Life Esidimeni PPDs	<b>873 954</b>	1 122 878	1 394 745
Number of Life Employee Health Solutions clinics (Life Occupational Health)	<b>288</b>	297	286
Number of lives covered through the Life Occupational Health	<b>222 895</b>	159 685	232 000
Number of Life Employee Health Solutions on-site clinics (Careways)	<b>78</b>	74	79
Number of lives covered by Careways	<b>248 804</b>	259 974	195 195
<b>Scanned (Poland)</b>			
Occupancy (%)	<b>69</b>	63	57
Number of medical facilities	<b>40</b>	40	36
Number of registered beds	<b>624</b>	624	334
Number of cardiac facilities	<b>12</b>	12	7
<b>Max Healthcare (India)</b>			
Occupancy (%)	<b>72</b>	75	73
Number of healthcare facilities	<b>12</b>	12	11
Number of registered beds	<b>2 375</b>	2 384	2 053



## Efficiency focus area and financial ratios

Geographical location and indicator	2017	2016	2015
<b>Life Healthcare (Group)</b>			
Cash generated from operations as percentage of EBITDA, target is >95%	<b>93.2</b>	93.3	94.9
Normalised EBITDA margin (%)	<b>24.0</b>	26.3	27.6
<b>Life Healthcare (southern Africa)</b>			
Normalised EBITDA margin (%)	<b>25.5</b>	27.5	28.3
<b>Alliance Medical (western Europe)</b>			
Normalised EBITDA margin (%)	<b>23.8</b>	n/a	n/a
<b>Scanmed (Poland)</b>			
Normalised EBITDA margin (%)	<b>4.0</b>	10.2	14.0
<b>Max Healthcare (India)</b>			
Normalised EBITDA margin (%)	<b>10.8</b>	10.9	9.9



## Quality focus area

Geographical location and indicator	2017	2016	2015
<b>Life Healthcare (southern Africa)</b>			
<b>Quality metrics</b>			
Recommend – inpatient (%)	<b>70.00</b>	69.40	68.80
Recommend – emergency units (%)	<b>67.20</b>	66.60	64.50
Patient experience – inpatient (target >8.0)	<b>8.1</b>	8.0	8.0
Patient experience – emergency units (target >7.5)	<b>8.1</b>	7.7	7.5
Complaint rate (per 1 000 PPDs)	<b>0.71</b>	0.74	0.75
<b>Clinical indicators</b>			
Patient incident rate <sup>3</sup> (per 1 000 PPDs) <sup>A, B, C</sup>	<b>2.69</b>	2.53	2.66
Healthcare associated infections (HAI) <sup>4</sup> (per 1 000 PPDs) <sup>A, B, C</sup>	<b>0.42</b>	0.37	0.32
Ventilator associated pneumonia (VAP) (per 1 000 ventilator days)	<b>1.48</b>	1.50	1.17
Surgical site infections (SSI) (per 1 000 theatre cases)	<b>0.96</b>	0.89	0.58
Central line associated bloodstream infections (CLABSI) (per 1 000 central lines)	<b>0.85</b>	0.73	0.55
Catheter associated urinary tract infections (CAUTI) (per 1 000 catheter days on one line)	<b>0.40</b>	0.35	0.45
FIM <sup>TM</sup> /FAM score <sup>5</sup> (target >0.9)	<b>1.00</b>	1.13	1.18
MHQ14 efficiency <sup>6</sup> (average gain/PPD) (target >2.25)	<b>2.50</b>	2.84	2.60
Employee incident rate (per 200 000 labour hours)	<b>4.43</b>	3.71	4.71
<b>Scanmed (Poland)</b>			
<b>Clinical indicators</b>			
HAI (%) <sup>7</sup>	<b>0.85</b>	0.58	0.62
Surgical site infections (SSI) (%)	<b>0.17</b>	0.15	0.18
Ventilator associated pneumonia (VAP) (%)	<b>0.15</b>	0.10	0.24
Central line associated bloodstream infections (CLABSI) (%)	<b>0.05</b>	0.04	0.07
Catheter associated urinary tract infections (CAUTI) (%)	<b>0.12</b>	0.09	0.15

## STRATEGIC PERFORMANCE IN NUMBERS CONTINUED



### Sustainability focus area

Geographical location and indicator	2017	2016	2015
<b>Human capital</b>			
<b>Life Healthcare (southern Africa)</b>			
Number of permanent employees	14 466	14 269	14 182
Number of nurses enrolled in training	1 358	1 052	1 165
African, Coloured and Indian (ACI) employees (%)	72.6	72.2	70.6
<b>Alliance Medical (western Europe)</b>			
Number of employees	1 715	n/a	n/a
<b>Scanmed (Poland)</b>			
Number of employees	3 345	3 651	2 290
Number of residents	27	23	14
<b>Environmental</b>			
<b>Life Healthcare (southern Africa)</b>			
Electricity usage (kWh) <sup>8</sup>	148 560 938	154 022 258	151 315 836
Water usage (kl) <sup>8</sup>	1 246 804	1 289 002	1 532 192
Healthcare risk waste (HCRW) (kg/PPD) <sup>A, B, C</sup>	1.81	1.73	1.68
<b>Scanmed (Poland)</b>			
Electricity usage (kWh) <sup>8</sup>	4 478 604	2 895 291	3 555 203
Water usage (kl) <sup>8</sup>	33 853	28 734	31 424

<sup>1</sup> Waiver consent letters were received from the relevant banks accepting the breach of covenants for a period of 13 months from the Alliance Medical acquisition date.

<sup>2</sup> Prior year has been adjusted as required by IFRS due to the rights offer to take into account the bonus element due to these shares having been issued at a discount.

<sup>3</sup> Patient incidents: Unintended or unexpected events which could have, or did, result in harm – this includes medication, falls, pressure ulcers, procedure-related incidents, behaviour, death due to unnatural causes, burns, other patient incidents, patients absconding and other patient information incidents.

<sup>4</sup> HAI: Combines all the healthcare associated infections determined according to the Centre for Disease Control (CDC) guidelines – VAP, SSI, CLABSI, CAUTI and other infections associated with the hospital stay.

<sup>5</sup> FIM™/FAM: Weekly assessment of patients' function, while in an acute rehabilitation facility.

<sup>6</sup> MHQ14 efficiency: Patient reported feedback in a mental health facility.

<sup>7</sup> The calculations differ from the other areas:

– HAI: total number of HAI/total number of patients x 100%.

<sup>8</sup> These figures are based on best estimates using available information.

<sup>A</sup> The 2017 indicator is externally assured. ✓

<sup>B</sup> The 2016 indicator is externally assured. ✓

<sup>C</sup> The 2015 indicator is externally assured. ✓

# SEVEN-YEAR PERFORMANCE HISTORY

## Group statement of comprehensive income

	CAGR since 2011 %	<b>2017</b> R'm	2016 R'm	2015 R'm	2014 R'm	2013 R'm	2012 R'm	2011 R'm
Revenue	13.4	<b>20 797</b>	16 404	14 647	13 046	11 834	10 930	9 805
Operating profit	9.2	<b>3 620</b>	3 660	3 496	3 150	2 878	2 486	2 137
Normalised EBITDA <sup>1</sup>	11.9	<b>5 001</b>	4 314	4 048	3 611	3 337	2 912	2 544
Net finance cost	35.5	<b>(1 229)</b>	(502)	(404)	(215)	(202)	(215)	(199)
Share of associates' net (loss)/profit after tax		<b>(15)</b>	8	14	39	70	90	118
Profit before tax	(1.3)	<b>1 934</b>	2 864	3 112	3 973	2 764	2 392	2 089
Profit for the year	(4.7)	<b>1 119</b>	1 970	2 228	3 098	2 004	1 729	1 492
Ordinary equity holders of the parent	(7.4)	<b>814</b>	1 616	1 866	2 774	1 711	1 482	1 287
Non-controlling interest	6.8	<b>305</b>	354	362	324	293	247	205
<b>Normalised EBITDA<sup>1</sup></b>	11.9	<b>5 001</b>	4 314	4 048	3 611	3 337	2 912	2 544
Operating profit	9.2	<b>3 620</b>	3 660	3 496	3 150	2 878	2 486	2 137
Profit on disposal of property, plant and equipment		<b>-</b>	-	-	-	(4)	(9)	-
Depreciation on property, plant and equipment		<b>971</b>	530	445	355	354	318	299
Amortisation on intangible assets		<b>439</b>	147	127	122	116	124	110
Retirement benefit asset and post-employment medical aid		<b>(29)</b>	(23)	(20)	(16)	(7)	(7)	(2)

<sup>1</sup> Life Healthcare defines normalised EBITDA as operating profit before depreciation on property, plant and equipment, amortisation of intangible assets, and non-trading costs and income.

## SEVEN-YEAR PERFORMANCE HISTORY CONTINUED

### Group statement of financial position

	2017 R'm	2016 R'm	2015 R'm	2014 R'm	2013 R'm	2012 R'm	2011 R'm
<b>Assets</b>							
<b>Non-current assets</b>							
Property, plant and equipment	11 131	7 752	7 101	5 901	4 517	4 008	3 753
Intangible assets	16 281	3 196	2 964	2 318	2 084	2 181	2 296
Investment in associates and joint ventures	2 976	2 548	2 311	828	1 178	1 098	287
Employee benefit assets	399	433	394	376	337	252	215
Other non-current assets	672	466	382	263	220	169	157
<b>Total non-current assets</b>	<b>31 459</b>	14 395	13 152	9 686	8 336	7 708	6 708
<b>Current assets</b>							
Cash and cash equivalents	1 176	604	812	422	297	244	400
Trade and other receivables	3 602	2 133	1 640	1 330	1 098	1 034	1 092
Inventories	357	318	271	240	214	198	193
Other current assets	45	47	48	121	11	4	8
<b>Total current assets</b>	<b>5 180</b>	3 102	2 771	2 113	1 620	1 480	1 693
<b>Total assets</b>	<b>36 639</b>	17 497	15 923	11 799	9 956	9 188	8 401
<b>Equity and liabilities</b>							
Capital and reserves	14 380	5 486	5 168	4 792	4 525	3 941	3 518
Non-controlling interest	1 171	1 312	1 280	1 108	1 081	936	866
<b>Total shareholders' equity</b>	<b>15 551</b>	6 798	6 448	5 900	5 606	4 877	4 384
<b>Non-current liabilities</b>							
Interest-bearing borrowings	7 786	5 469	5 263	2 344	1 657	1 929	1 565
Derivative financial instruments	749	–	–	9	–	11	–
Deferred tax liabilities	1 203	547	520	438	388	352	368
Other non-current liabilities	253	95	69	76	66	64	56
<b>Total non-current liabilities</b>	<b>9 991</b>	6 111	5 852	2 867	2 111	2 356	1 989
<b>Current liabilities</b>							
Bank overdraft	450	1 030	557	155	233	–	–
Trade and other payables	4 174	2 217	2 125	1 866	1 501	1 440	1 450
Interest-bearing borrowings	6 301	1 312	924	1 007	452	460	460
Other current liabilities	172	29	17	4	53	55	118
<b>Total current liabilities</b>	<b>11 097</b>	4 588	3 623	3 032	2 239	1 955	2 028
<b>Total equity and liabilities</b>	<b>36 639</b>	17 497	15 923	11 799	9 956	9 188	8 401

## Group statement of cash flows

	<b>2017</b>	2016	2015	2014	2013	2012	2011
	<b>R'm</b>	R'm	R'm	R'm	R'm	R'm	R'm
Cash operating profit	<b>5 302</b>	4 556	4 213	3 785	3 514	3 067	2 567
Changes in working capital	<b>(639)</b>	(520)	(356)	(253)	(92)	(26)	(5)
<b>Cash generated from operations</b>	<b>4 663</b>	4 036	3 857	3 532	3 422	3 041	2 562
Transaction costs paid	<b>(210)</b>	(12)	(15)	(16)	–	–	–
Interest received	<b>162</b>	12	12	22	14	22	37
Tax paid	<b>(891)</b>	(981)	(903)	(980)	(804)	(748)	(617)
<b>Net cash inflow from operating activities</b>	<b>3 724</b>	3 055	2 951	2 558	2 632	2 315	1 982
Net cash outflow from investing activities							
– investments to expand and maintain	<b>(11 957)</b>	(2 025)	(3 198)	(1 457)	(828)	(1 415)	(738)
Net cash inflow from investing activities							
– disposals	<b>73</b>	15	–	1 369	5	63	8
Net cash inflow from investing activities							
– other	<b>(1)</b>	14	–	13	42	85	81
Net cash inflow/(outflow) from financing activities	<b>9 298</b>	(1 677)	222	(2 288)	(2 031)	(1 204)	(1 415)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1 137</b>	(618)	(25)	195	(180)	(156)	(82)
Cash and cash equivalents – beginning of the year	<b>(426)</b>	255	267	64	244	400	482
Effect of foreign currency movement	<b>15</b>	(63)	13	8	–	–	–
<b>Cash and cash equivalents – end of the year</b>	<b>726</b>	(426)	255	267	64	244	400

## SEVEN-YEAR PERFORMANCE HISTORY CONTINUED

### Business performance and metrics

	2017	2016	2015	2014	2013	2012	2011
Number of registered beds <sup>1,2</sup>	<b>8 983</b>	8 768	8 647	8 418	8 279	8 227	7 916
PPDs <sup>2</sup>	<b>2 226 337</b>	2 265 653	2 177 833	2 115 254	2 074 551	2 020 864	1 903 951
Occupancy (%) <sup>3,2</sup>	<b>70.0</b>	72.5	71.9	71.9	71.7	71.2	71.0
Length of stay <sup>2</sup>	<b>3.71</b>	3.68	3.63	3.57	3.50	3.45	3.34
<b>Financial ratios</b>							
Normalised EBITDA margin (%)	<b>24.0</b>	26.3	27.6	27.7	28.2	26.7	26.0
Tax rate excluding secondary tax on companies (%)	<b>42.1</b>	31.2	28.3	22.0	27.5	26.9	25.7
Effective tax rate (%)	<b>42.1</b>	31.2	28.3	22.0	27.5	27.7	28.6
Debtors' days <sup>2</sup>	<b>38</b>	37	31	31	31	30	31
Stock cover (days) <sup>2</sup>	<b>24.5</b>	25.6	24.6	24.1	24.3	25.5	24.6
Quick ratio (:1)	<b>1.08</b>	0.95	1.03	1.04	0.91	0.99	1.08
Current ratio (:1)	<b>1.01</b>	0.85	0.93	0.92	0.79	0.86	0.96
Gearing net of cash (%)	<b>45.1</b>	53.1	46.9	33.3	26.5	30.3	25.3
Total debt (R'm)	<b>14 087</b>	6 781	6 187	3 351	2 109	2 389	2 025
Net debt (R'm)	<b>13 361</b>	7 207	5 932	3 084	2 045	2 145	1 625
Interest-bearing debt (R'm) <sup>4</sup>	<b>12 447</b>	5 830	5 207	2 490	1 515	1 876	1 478
Debt related to finance leases raised in terms of IAS 17 <sup>5</sup>	<b>1 640</b>	951	980	861	594	513	546
Net debt: normalised EBITDA	<b>2.55</b>	1.67	1.49	0.84	0.63	0.73	0.66
Interest cover	<b>4.2</b>	8.2	9.7	21.0	13.4	12.1	10.9
Return on net assets (RONA) (%)	<b>10.5</b>	25.9	31.4	55.0	46.0	45.2	41.3

<sup>1</sup> Life Hilton Private Hospital opened in September 2015, and Genesis Clinic was acquired in March 2015. In March 2014, Life Sandton Surgical Centre closed. Life St Joseph's, Life Piet Retief and Life Poortview opened in November 2011, December 2011 and May 2012 respectively. The Life Grey Monument management agreement concluded during October 2011, and Life Birchmed was disposed of in March 2012. Life acquired the majority shareholding in Middelburg Hospital in August 2011.

<sup>2</sup> Metrics for South African operations.

<sup>3</sup> Occupancy is measured based on the weighted number of available beds during the period and takes acquisitions and expansions during the year on a proportionate basis into account.

<sup>4</sup> The initial investment in Max Healthcare in 2012 was funded through the issue of preference shares to the value of R820 million. In 2015 preference shares to the value of R2 050 million were issued to fund the additional investment in Max Healthcare, to equalise our shareholding, and for further acquisitions within the Scanned Group. The acquisition of Alliance Medical in 2017 was funded by way of a bridge facility of R14 601 million, during the 2017 financial year R8 770 million was repaid via the funds raised through the rights offer.

<sup>5</sup> IAS 17 requires lessees at the commencement of the lease term, to recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to their fair value of the leased property.



## Shareholder returns

	2017	2016	2015	2014	2013	2012	2011
Earnings per share (cents) <sup>1</sup>	<b>62.2</b>	144.1	167.3	248.7	153.3	132.5	115.0
Diluted earnings per share (cents) <sup>1</sup>	<b>62.0</b>	143.7	166.7	248.1	153.1	132.5	115.0
Headline earnings per share (cents) <sup>1</sup>	<b>77.4</b>	179.1	167.3	165.3	153.3	129.6	111.1
Diluted headline earnings per share (cents) <sup>1</sup>	<b>77.2</b>	178.5	166.7	164.9	153.1	129.5	111.1
Normalised earnings per share from continued operations (cents) <sup>1</sup>	<b>93.9</b>	169.4	165.0	156.7	140.1	122.1	102.1
Normalised earnings per share from continued operations excluding amortisation (cents) <sup>1</sup>	<b>120.6</b>	179.0	173.2	164.6	147.5	130.0	109.2
Weighted average number of shares in issue ('m) <sup>1</sup>	<b>1 310</b>	1 121	1 115	1 115	1 116	1 118	1 120
Weighted average number of shares for diluted earnings per share ('m) <sup>1</sup>	<b>1 314</b>	1 125	1 119	1 118	1 117	1 119	1 120
Total number of shares in issue ('m)	<b>1 449</b>	1 058	1 042	1 042	1 042	1 042	1 042
Distributions per share (cents)	<b>80.0</b>	165.0	154.0	141.0	126.0	105.0	85.0
Net asset value per share (cents)	<b>992.4</b>	518.5	495.9	459.8	434.2	378.2	337.5
<b>Normalised earnings</b>	<b>1 230</b>	1 899	1 840	1 748	1 563	1 365	1 143
Profit attributable to ordinary equity holders	<b>814</b>	1 616	1 866	2 774	1 711	1 482	1 287
Adjustments (net of tax):							
Businesses disposed/closed	<b>-</b>	-	-	(54)	(120)	(103)	(100)
Contingent consideration released	<b>(43)</b>	(109)	(21)	-	-	-	-
Fair value gain on foreign exchange hedge	<b>(7)</b>	-	(1)	(40)	-	-	-
Gain on derecognition of finance lease liability	<b>-</b>	-	-	-	(16)	-	-
Impairments	<b>167</b>	370	-	-	-	-	54
(Profit)/loss on remeasuring previously held interest in associate to fair value	<b>(4)</b>	23	-	-	-	3	(92)
Profit on disposal of investment in associate	<b>-</b>	-	-	(929)	-	-	-
Loss/(profit) on disposal of property, plant and equipment	<b>37</b>	(1)	-	-	(3)	(7)	-
Retirement fund (included in employee benefit expenses)	<b>-</b>	(3)	(4)	(7)	(7)	-	-
Retirement funds	<b>(21)</b>	(16)	(15)	(11)	(5)	(5)	(2)
Transaction costs	<b>267</b>	12	15	16	-	-	-
Other	<b>20</b>	7	-	(1)	3	(5)	(4)

## Market indicators

	2017	2016	2015	2014	2013	2012	2011
Market price – high (R) per share	<b>39.02</b>	40.48	46.67	47.81	38.55	35.70	19.30
Market price – low (R) per share	<b>23.05</b>	29.53	34.32	34.66	29.76	18.50	14.00
Market price – year-end (R) per share	<b>23.70</b>	37.87	35.00	44.54	35.74	31.75	19.30
Market capitalisation – year-end (R'm)	<b>34 341</b>	40 066	36 477	46 420	37 249	33 090	20 115
Number of shares traded ('m)	<b>1 326</b>	1 047	870	724	789	1 001	1 100
Value of shares traded (R'm)	<b>39 142</b>	38 433	34 755	29 422	27 025	26 253	18 130
Price-earnings ratio	<b>38.10</b>	26.27	20.92	17.91	21.07	22.08	16.79

<sup>1</sup> The earnings per share and headline earnings per share for the comparative years have been amended as a result of the increase to the weighted average number of shares, due to the rights offer and the related bonus element within the rights offer, in accordance with IFRS.

# SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

The social, ethics and transformation committee is pleased to present its report to shareholders for the financial year ended 30 September 2017 in accordance with the requirements of the Companies Act.

The purpose of the report is to set out how the committee discharged its responsibilities in accordance with its mandate. The mandate of the committee is contained in formal terms of reference which are amended as necessary, approved by the committee and reviewed and approved by the board annually. The terms of reference guide the committee to perform its oversight role to ensure that the Group, as a responsible corporate citizen, conducts sustainable and ethical business and that its reputation is safeguarded.

## Composition of the committee

The members of the committee for the year under review were as follows:

- LM Mojela (chairman – independent non-executive director) (Resigned as a non-executive director effective 25 January 2017)
- ME Nkeli (chairman – independent non-executive director) (Appointed as chairman of the committee effective 25 January 2017)
- Dr MP Ngatane (independent non-executive director)
- PJ Golesworthy (independent non-executive director) (Appointed as a member of the committee effective 25 January 2017)
- A Meyer (Group Chief Executive Officer – executive director) (Stepped down as Group Chief Executive Officer and executive director effective 30 June 2017)
- PP van der Westhuizen (Acting Group Chief Executive Officer and Group Chief Financial Officer – executive director) (Appointed as a member of the committee effective 26 July 2017)
- Dr NK Patel (Executive – healthcare services division – a non-voting member) (Resigned effective 4 March 2017)

Senior executives and functional heads attend meetings of the committee as appropriate. All members of management who present on various matters are experts on each of the disciplines or areas falling within the mandate of the committee specified in regulation 43(5) of the Companies Act. The Chairman of the board is a standing invitee.

The committee met three times during the year, and the proceedings of each meeting were reported to the board. Presentations that are made at the committee are also included in the board packs.

## Responsibilities

The committee has a statutory responsibility to monitor the Group's activities in terms of the Companies Act with regard to matters relating to:

- social and economic development;
- good corporate citizenship;

- environment, health and public safety;
- consumer relationships; and
- labour and employment practices.

The committee has the responsibility to draw matters within its mandate to the attention of the board and to shareholders.

## Functioning

During the financial year ended 30 September 2017, the key issues addressed by the committee included the following:

- The Group's code of ethics and the prevention of fraud, bribery and corrupt practices review and implementation
- Whistle-blowing arrangements and the resolution of tip-offs reported
- The environmental, health and public safety initiatives and progress against targets
- Health policy and pending legislation or recently enacted legislation that may have a potential material impact on the Group i.e. PoPI, and labour and employment equity legislation
- Performance against the B-BBEE scorecard and the monitoring of management's efforts to improve the Group's B-BBEE rating
- The Group's transformation strategy and review of the Group's transformation initiatives
- Employment equity targets for the southern Africa business and related progress
- Skills development programmes aimed at employees' education and the related progress
- Labour practices and policies adopted
- Corporate social initiatives including details of charitable donations
- Consumer relationships including the Group's advertising, public relations and compliance with consumer protection laws

## Conclusion

The committee was pleased to note that the Group retained its position as a constituent of the FTSE/JSE Responsible Index based on the FTSE environmental, social and governance (ESG) rating. This achievement reinforces the committee's view that the Group takes its ESG responsibilities seriously. Based on its monitoring activities for the year, no substantive non-compliance with legislation and regulation relevant to the committee's mandate was raised. The committee is satisfied that it has discharged its responsibilities in accordance with its mandate for the year under review.



**Mpho Nkeli**

*Chair: Social, ethics and transformation committee*

# INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS OF LIFE HEALTHCARE HOLDINGS LIMITED

We have been engaged by the directors of Life Healthcare Group Holdings Limited (the “Company” or “Life Healthcare”) to perform an independent limited assurance engagement in respect of Selected Sustainability Information reported in the Company’s Integrated Report for the year ending 30 September 2017 (the “Report”). This report is produced in accordance with the terms of our contract with the Company dated 26 October 2017.

## Independence, quality control and expertise





We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement was conducted by a multi-disciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

## Scope and subject matter


The following subject matter in the Report was selected for an expression of limited assurance:

- a) Healthcare Risk Waste Generated – HCRW kg/PPD  page 144)
- b) Total Patient Incident Rate – per 1 000 PPDs  page 143)
- c) Healthcare associated infection rate – per 1 000 PPDs  page 143)
- d) Paid patient days – PPDs  page 62)

We refer to this information as the “Selected Sustainability Information”.

We have carried out work on the data reported for 30 September 2017 only and have not performed any procedures with respect to earlier periods, except where specifically indicated, or any other elements included in the 2017 Integrated Report and therefore do not express any conclusion thereon. We have not performed work in respect of future projections and targets.

## Respective responsibilities of the directors and PricewaterhouseCoopers Inc.

The directors are responsible for the selection, preparation and presentation of the Selected Sustainability Information in accordance with the criteria set out in the Company’s internally defined procedures set out on  pages 62, 67, 69 and 144 of the Report referred to as the “Reporting Criteria”. The directors are also responsible for designing, implementing and maintaining internal controls as the directors determine is necessary to enable the preparation of the Selected Sustainability Information that is free from material misstatements, whether due to fraud or error.

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that Selected Sustainability Information has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This report, including the conclusion, has been prepared solely for the directors of the Company as a body to assist the directors in reporting on the Company’s sustainable development performance and activities. We permit the disclosure of this report within the Report for the year ended 30 September 2017 to enable the directors to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and the Company for our work or this report, save where terms are expressly agreed and with our prior consent in writing.

## Assurance work performed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits and Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and that we plan and perform the assurance engagement to obtain limited assurance on the Selected Sustainability Information as per the terms of our engagement.

Our work included examination, on a test basis, of evidence relevant to the Selected Sustainability Information. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the Selected Sustainability Information. We planned and performed our work so as to obtain all the information and

## INDEPENDENT ASSURANCE REPORT TO THE DIRECTORS OF LIFE HEALTHCARE HOLDINGS LIMITED CONTINUED

explanations that we considered necessary in order to provide us with sufficient evidence on which to base our conclusion in respect of the Selected Sustainability Information.

Our limited assurance procedures primarily comprised:

- obtaining an understanding of the systems used to generate, aggregate and report the Selected Sustainability Information;
- conducting interviews with management at Life Healthcare's offices;
- applying the assurance criteria in evaluating the data generation and reporting processes;
- performing walkthroughs;
- testing the accuracy of data reported on a sample basis for limited assurance;
- reviewing the consolidation of the data at Life Healthcare's offices to obtain an understanding of the consistency of the reporting;
- analysing and obtaining explanations for deviations in performance trends; and
- reviewing the consistency between the Selected Sustainability Information and related statements in Life Healthcare's Integrated Report.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000 (Revised). Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement, and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the Selected Sustainability Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of the Selected Sustainability Information in order to design procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques, which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Report in the context of the internally defined procedures set out on pages 62, 67, 69 and 144.

### Conclusion

Based on the results of our limited assurance procedures, nothing has come to our attention that causes us to believe that the Selected Sustainability Information for the year ended 30 September 2017 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

### Other matters

The maintenance and integrity of Life Healthcare's website is the responsibility of Life Healthcare's directors. Our procedures did not involve consideration of these matters, and accordingly we accept no responsibility for any changes to either the information in the Report or our independent assurance report that may have occurred since the initial date of presentation on Life Healthcare's website.



PricewaterhouseCoopers Inc.  
Registered Auditor  
Director: Jayne Mammatt  
2 Eglin Road, Sunninghill, Johannesburg, 2157  
12 December 2017

# GLOSSARY

## OF TERMS

<b>ACI</b>	African, Coloured and Indian
<b>Alliance Medical</b>	Alliance Medical Group Limited
<b>AMS</b>	Antimicrobial stewardship
<b>ARM</b>	Alternative reimbursement model
<b>ASL</b>	Azienda Sanitaria Locale
<b>BPMHSW</b>	Botswana Private Medical and Health Services Workers Union
<b>BWP</b>	Botswana pula
<b>CAUTI</b>	Catheter associated urinary tract infections
<b>CDC</b>	Centre of Disease Control
<b>CGU</b>	Cash-generating unit
<b>CLABSI</b>	Central line associated bloodstream infections
<b>CMSA</b>	Colleges of Medicine South Africa
<b>CODM</b>	Chief operating decision maker
<b>COID</b>	Compensation for Occupational Injuries and Diseases Act
<b>Companies Act</b>	South African Companies Act, 71 of 2008, (as amended)
<b>CPI</b>	Consumer price inflation
<b>cps</b>	Cents per share
<b>CRPM</b>	Centre for Rapid Prototyping and Manufacturing
<b>CSI</b>	Corporate social investment
<b>CT</b>	Computerised tomography
<b>CUT</b>	Central University of Technology
<b>DPS</b>	Distribution per share
<b>EBIT</b>	Earnings before interest and tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>ECL</b>	Expected credit losses
<b>ED</b>	Enterprise development
<b>EHS</b>	Life Employee Health Solutions
<b>e-ICU</b>	Electronic intensive care unit
<b>EMS</b>	Environmental management system
<b>EOH WHW</b>	EOH Workplace Health and Wellness division
<b>EPS</b>	Earnings per share
<b>ERP</b>	Enterprise resource planning
<b>ESD</b>	Enterprise and supplier development
<b>ESG</b>	Environmental, social and governance
<b>EUR</b>	Euro
<b>EY</b>	Ernst & Young
<b>FAM</b>	Functional Assessment Measure
<b>FIM™</b>	Functional Independence Measure™
<b>Free State Oncology</b>	Free State Oncology Trust
<b>FSB</b>	Financial Services Board
<b>GBP</b>	Pound sterling

## GLOSSARY OF TERMS CONTINUED

<b>GDP</b>	Gross domestic product
<b>GEMS</b>	Government Employees Medical Scheme
<b>HAI</b>	Healthcare associated infections
<b>HASA</b>	Hospital Association of South Africa
<b>HBA</b>	Hazardous biological agents
<b>HCRW</b>	Healthcare risk waste
<b>HEPS</b>	Headline earnings per share
<b>HMI</b>	Healthcare Market Inquiry
<b>HPCSA</b>	Health Professions Council of South Africa
<b>HR</b>	Human resources
<b>IASB</b>	International Accounting Standards Board
<b>ICNet</b>	Life Healthcare's electronic surveillance system
<b>ICU</b>	Intensive care unit
<b>IDC</b>	Industrial Development Corporation
<b>IFC</b>	International Finance Corporation
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>IIRC</b>	International Integrated Reporting Council
<b>IMF</b>	International Monetary Fund
<b>INR/Rs</b>	Indian rupee
<b>IoDSA</b>	Institute of Directors in Southern Africa
<b>IRBA Code</b>	Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors
<b>ISAE</b>	International Standard on Assurance Engagements
<b>ISMS</b>	Information security management system
<b>JIBAR</b>	Johannesburg interbank agreed rate
<b>JSE</b>	Johannesburg Stock Exchange Limited
<b>JSE Listings Requirements</b>	JSE Limited Listings Requirements
<b>King III</b>	King III Report on Governance for South Africa 2009
<b>King IV</b>	King IV Report on Corporate Governance for South Africa 2016
<b>KKA</b>	Kliniki Kardiologiji Allenort
<b>kℓ</b>	Kilolitre
<b>KPI</b>	Key performance indicator
<b>kWh</b>	Kilowatt hour
<b>kWp</b>	Kilowatt peak
<b>LGH</b>	Lifecare Group Holdings
<b>LHC</b>	Life Healthcare Group Proprietary Limited
<b>LIBOR</b>	London interbank offered rate
<b>LOS</b>	Length of stay
<b>LTIP</b>	Long-term incentive plan
<b>Max or Max Healthcare</b>	Max Healthcare Institute Limited
<b>MEEM</b>	Multi-period earnings excess method
<b>MICN</b>	Molecular Imaging Collaborative Network
<b>MOI</b>	Memorandum of Incorporation

<b>MRI</b>	Magnetic resonance imaging
<b>MSA</b>	Medical Schemes Act
<b>NFZ</b>	Narodowy Fundusz Zdrowia
<b>NGO</b>	Non-governmental organisation
<b>NHI</b>	National Health Insurance
<b>NHRPL</b>	National Health Reference Price List
<b>NHS</b>	National Health Service
<b>NPO</b>	Not-for-profit organisation
<b>NPPA</b>	National Pharmaceutical Pricing Authority
<b>OEM</b>	Original equipment manufacturer
<b>OHSA</b>	Occupational Health and Safety Act, 85 of 1993
<b>PET-CT</b>	Positron emission tomography-computerised tomography
<b>PGM</b>	Polska Grupa Medyczne
<b>PHEF</b>	Public Health Enhancement Fund
<b>PIC</b>	Government Employees Pension Fund
<b>PLN</b>	Polish zloty
<b>PoPI</b>	Protection of Personal Information Act
<b>PPD</b>	Paid patient day
<b>PPP</b>	Public-private partnership
<b>PV</b>	Photovoltaic (solar)
<b>PwC</b>	PricewaterhouseCoopers Inc.
<b>PXM</b>	Patient experience management
<b>QMS</b>	Quality Management System
<b>RCM</b>	Raciborskie Centrum Medyczne
<b>RONA</b>	Return on net assets
<b>SANC</b>	South African Nursing Council
<b>SASOG</b>	South African Society of Obstetricians and Gynaecologists
<b>Scanmed</b>	Scanmed S.A.
<b>SD</b>	Supplier development
<b>SENS</b>	Stock Exchange News Service
<b>SEP</b>	Single exit price
<b>SSI</b>	Surgical site infections
<b>TFR</b>	Trattamento di Fine Rapporto
<b>TSR</b>	Total shareholder return
<b>UFT</b>	Business unit performance
<b>UK</b>	United Kingdom
<b>VAP</b>	Ventilator associated pneumonia
<b>VCP</b>	Variable compensation plan
<b>VWAP</b>	Volume weighted average traded price
<b>WHO</b>	World Health Organization
<b>WIBOR</b>	Warsaw interbank offered rate
<b>ZAR</b>	South African rands



# MESSAGE FROM OUR LEADERS



We remain focused on maximising our growth opportunities while ensuring that quality, patient-centred care remains our core deliverable in a competitive industry.

**Mustaq Brey**  
*Chairman*

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The acquisition of Alliance Medical has enabled the Group to further diversify our business into more non-acute lines of business and internationally. This is our first substantial foray into the diagnostics market which is underpinned by good growth characteristics.

**Pieter van der Westhuizen**  
*Acting Group Chief Executive Officer*

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## ADMINISTRATION

Company name:	Life Healthcare Group Holdings Limited
Registration number:	2003/002733/06
Date of incorporation:	7 February 2003
Country of incorporation:	Republic of South Africa
Registered business address:	Oxford Manor 21 Chaplin Road Illovo 2196
Registered postal address:	Private Bag X13 Northlands 2116
Composition of board of directors:	MA Brey (Chairman) PP van der Westhuizen (Acting Group Chief Executive Officer and Group Chief Financial Officer) PJ Golesworthy ME Jacobs AM Mothupi JK Netshitenzhe MP Ngatane ME Nkeli M Sello GC Solomon RT Vice
Company Secretary:	F Patel
Transactional bankers:	First National Bank (a division of FirstRand Bank Limited)
Auditors:	PricewaterhouseCoopers Inc. Johannesburg



The Group increased revenue to R20.8 billion (2016: R16.4 billion) and expanded our footprint into Europe through the acquisition of Alliance Medical.

**Pieter van der Westhuizen**  
*Group Chief Financial Officer*

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[online](#)

[www.lifehealthcare.co.za](http://www.lifehealthcare.co.za)